HOUSE OF COMMONS

SELECT STANDING COMMITTEE

ON

BANKING AND COMMERCE

Consideration of Improvement of the Banking System of Canada

SESSION 1928

PROCEEDINGS AND EVIDENCE

Printed by Order of Parliament

OTTAWA
F. A. ACLAND
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1928

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MEMBERS OF THE COMMITTEE

F. W. HAY, *Chairman*

and

Messieurs

Allan, H.,
Bennett, Hon. R. B.,
Benoit, A. J.,
Bird, T. W.,
Black, Hon. W. A. (Halifax),
Bock, W. G.,
Bothwell, C. E.,
Brown, J. L.,
Casgrain, P. F.,
Casselman, A. C.,
Cayley, T. M.,
Chaplin, Hon. J. D.,
Clark, J. A.,
Donnelly, T.,
Drayton, Sir Henry,
Ernst, W. G.,
Fafard, J. F.,
Geary, G. R.,
Gervais, T.,
Guérin, J. J. E.,
Hanson, R. B.,
Harris, J. H.,
Hepburn, M. F.,
Irvine, W.,
Jacobs, S. W.,
Ladner, L. J.,
Lang, M.,
McLean, M. (Melfort),
McPhee, G. W.,
McRae, A. D.,
Matthews, R. C.,
Odette, E. G.,
Perley, Sir George,
Robb, Hon. J. A.,
Robinson, S. C.,
Robitaille, C.,
Ross, J. G. (Moose Jaw),
Rutherford, J. W.,
Ryckman, Hon. E. B.,
Sanderson, F. G.,
Smith, A. N. (Stormont),
Smoke, F.,
Spencer, H. E.,
Steedsman, J.,
Stevens, Hon. H. H.,
Vallance, J.,
Ward, W. J.,
Woodsworth, J. S.,
Young, E. J. (Weyburn).

J. T. DUN,
Clerk of the Committee.

ORDER OF REFERENCE

(With respect only to consideration of improvement of the banking system of Canada)

HOUSE OF COMMONS,

MONDAY, 13th February, 1928.

Resolved,—That the following members do compose the Select Standing Committee on Banking and Commerce:—

Messieurs: Allan, Bennett, Benoit, Bird, Black, (*Halifax*), Bock, Bothwell, Brown, Casgrain, Casselman, Cayley, Chaplin, Clark, Donnelly, Drayton, (Sir Henry), Ernst, Fafard, Geary, Gervais, Guérin, Hanson, Harris, Hay, Hepburn, Irvine, Jacobs, Ladner, Lang, McLean (*Melfort*), McMillan, McPhee, McRae, Matthews, Odette, Perley (Sir George), Robb, Robinson, Robitaille, Ross (*Moose Jaw*), Rutherford, Ryckman, Smith (*Stormont*), Smoke, Spencer, Steedsman, Stevens, Vallance, Ward, Woodsworth, Young (*Weyburn*).—50.

(Quorum 15.)

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

Ordered,—That the Select Standing Committee on Banking and Commerce be empowered to examine and inquire into all such matters and things as may be referred to them by the House; and to report from time to time their observations and opinions thereon, with power to send for persons, papers and records.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

MONDAY, 13th February, 1928.

Resolved,—That, in the opinion of this House, the time has come for the consideration of the improvement of our banking system and that the Banking and Commerce Committee be instructed to study possible improvements and report thereon.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

WEDNESDAY, 15th February, 1928.

Ordered,—That the name of Mr. Sanderson be substituted for that of Mr. McMillan on the Select Standing Committee on Banking and Commerce.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

WEDNESDAY, 29th February, 1928.

Ordered,—That 750 copies in English and 250 copies in French of the proceedings and evidence which may be taken before the Select Standing Committee on Banking and Commerce respecting consideration of the improvement of the banking system of Canada, be printed from day to day, for the use of the Committee and of the House of Commons, and that Standing Order 64 be suspended in connection therewith.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

THURSDAY, March 29, 1928.

Ordered,—That 1,500 copies in English and 500 copies in French of the evidence taken on Wednesday, 28th instant, on which occasion Mr. W. P. G. Harding of Boston, Mass., U.S.A., was before the said Committee, be printed for the use of the Members of the House of Commons, and that Standing Order 64 be suspended in relation thereto.

Attest.

ARTHUR BEAUCHESNE,
Clerk of the House.

REPORTS OF THE COMMITTEE

(With respect only to consideration of improvement of the banking system of Canada)

FIRST REPORT

WEDNESDAY, 29th February, 1928.

The Select Standing Committee on Banking and Commerce beg leave to present the following as their first report:

Your Committee recommend that 750 copies in English and 250 copies in French of their proceedings and evidence which may be taken respecting consideration of the improvement of the banking system of Canada be printed from day to day, for the use of the Committee and of the House of Commons, and that Rule 64 be suspended in connection therewith.

All of which is respectfully submitted.

F. W. HAY,
Chairman.

(Presented, 29th February, 1928. Concurred in, same day.)

THIRD REPORT

THURSDAY, March 29, 1928.

The Select Standing Committee on Banking and Commerce beg leave to present the following as their third report:—

Your Committee recommend that 1,500 copies in English and 500 copies in French of the evidence taken on Wednesday, 28th instant, on which occasion Mr. W. P. G. Harding of Boston, Mass., U.S.A., was before the Committee, be printed for the use of the Members of the House of Commons, and that Standing Order No. 64 be suspended in relation thereto.

All of which is respectfully submitted.

F. W. HAY,
Chairman.

(Presented, 29th March. Concurred in, same day.)

SEVENTH REPORT

The Select Standing Committee on Banking and Commerce beg leave to present the following as their seventh report:—

Consideration has been given to a Resolution of the House of Commons, dated February 13, 1928, and referred to this Committee, viz:—

> " That, in the opinion of this House, the time has come for the consideration of the improvement of our banking system and that the Banking and Commerce Committee be instructed to study possible improvements and report thereon."

Five sessions of the Committee were held during which this reference was under consideration.

Witnesses were examined, including O. S. Tompkins, Inspector-General of Banks, G. W. Hyndman, Assistant Deputy Minister of Finance; A. E. Darby, Director of Economic Research of the Canadian Council of Agriculture; A. E. Phipps, President of the Canadian Bankers' Association; The Hon. W. P. C. Harding, Governor of the Federal Reserve Bank of Boston, Mass.; and H. T. Ross, K.C., Secretary of the Canadian Bankers' Association.

As directed in the Order of Reference, the Committee conducted a study of possible improvements to our Canadian Banking system, and many interesting and useful suggestions were made; but early in the proceedings one major proposal to a large extent monopolized the attention of the Committee, viz:, that a Central Bank of Issue and Rediscount, somewhat analogous in its relations to the Canadian banking system to that of the Federal Reserve Banks to the United States system should be established in Canada. It was urged that through the "open market" operations of such a bank and variation in rates of interest in accordance with changing monetary conditions, control of credit could in some degree be exercised, and that the institution might become a medium through which commodity price levels could be regulated.

The evidence adduced did not, however, convince the Committee that such could be fully achieved. The preponderance of evidence indicated that the operations of a Central Bank of Issue, or Federal Reserve Bank as in the United States, exercised only an indirect or limited influence over price levels and that many of the functions attributed to such Central Bank of Issue and Rediscount were already being performed through the Finance Act. The Committee, however, is of opinion that owing to the rapid expansion of Canadian commercial,

industrial and agricultural operations and the possibility in the near future for the need of a much larger measure of credit than at any time in the past, it is desirable that a careful study be made by competent experts of the facilities available under the Finance Act, and to determine if such are capable of ready expansion to meet possible requirements of credit; and further to determine if under the present scope of the Finance Act it is possible for the Treasury Board to deal effectively with unusual variations in the rates of interest; and, lastly, to consider (in case it should be decided that present legislation is too restrictive) what measures should be taken to adapt our present system to the growing needs of the country.

Your Committee, therefore, recommend that the Government, through the Minister of Finance and the Treasury Board, invite into conference the Bankers of Canada, together with other competent persons with experience in such matters, to give further study to the subject matter of this Report, with instructions to take such steps as in their opinion in the premises are warranted. Your Committee feel that while it has accomplished much useful preliminary work, this would be conducive to a more intensive study of the question than to have the Committee itself conduct further investigations and this recommendation would, of course, in no way affect the usual procedure of having all important changes in banking legislation ordinarily made at the regular decennial revisions of the Bank Act submitted for the careful consideration of the Committee.

Your Committee desire to express appreciation of the manner in which evidence was given, and particularly of the courtesy of the Hon. W. P. G. Harding, Governor of the Federal Reserve Bank of Boston, for having come to Canada to give evidence which has proven to be of inestimable value to the Committee.

A copy of the proceedings and evidence is submitted herewith.

All of which is respectfully submitted.

F. W. HAY,
Chairman.

(Presented, 3rd May. Concurred in, 9th May.)

MOTION IN HOUSE TO PRINT PROCEEDINGS AND EVIDENCE AS APPENDIX TO THE JOURNALS OF THE HOUSE AND IN BLUE BOOK FORM

On Motion of Mr. Sanderson, for Mr. Hay, it was ordered,—That the proceedings and evidence taken by the Select Standing Committee on Banking and Commerce respecting improvement of the banking system of Canada, as submitted in their Seventh Report on 3rd May last, be printed as an appendix to the Journals of the House; that 750 copies in English and 250 copies in French of said proceedings and evidence be printed in blue book form; and that Standing Order 64 be suspended in relation thereto.

(Presented, 23rd May, 1928.)

MINUTES OF PROCEEDINGS

HOUSE OF COMMONS,
ROOM 277,
WEDNESDAY, 29th February, 1928.

The Committee met at 11 a.m., Mr. Hay, the Chairman, presiding.

Present: Messrs. Allan, Benoit, Bird, Bock, Bothwell, Guérin, Hanson, Hay, Irvine, Ladner, Matthews, Smoke, Spencer, Steedsman, Ward and Woodsworth.

The Committee proceeded to the consideration of a resolution of the House, viz.:

> That, in the opinion of this House, the time has come for the consideration of the improvement of our banking system and that the Banking and Commerce Committee be instructed to study possible improvements and report thereon.

At the invitation of the Chairman, Mr. Woodsworth outlined the course which he thought the Committee should follow. Suggestions were then made by Messrs. Hanson, Ladner, Spencer, Irvine and Matthews.

On motion of Mr. Ladner, it was,—

Resolved,—That the Committee request permission to have 750 copies in English and 250 copies of French of their proceedings and evidence which may be taken respecting consideration of the improvement of the banking system of Canada printed from day to day for the use of the Committee, and of the House of Commons, and that Standing Order 64 be suspended in connection therewith.

On motion of Mr. Hanson, it was,—

Resolved,—That a sub-committee of three, to include the Chairman, be appointed by the Chairman to suggest names of probable witnesses.

Ordered,—That Mr. J. C. Saunders, Deputy Minister of Finance, and Mr. C. S. Tompkins, Inspector General of Banks, Department of Finance, be requested to give evidence before the Committee at the next meeting.

The Committee adjourned until Wednesday, 7th March, at 11 a.m.

HOUSE OF COMMONS,
ROOM 429.
WEDNESDAY, 7th March, 1928.

The Committee met at 11 a.m., Mr. Hay, the Chairman, presiding.

Present: Messrs. Allan, Benoit, Bothwell, Casselman, Cayley, Donnelly, Ernst, Guérin, Harris, Hay, Irvine, Ladner, McLean (*Melfort*), Matthews, Perley (Sir George), Robinson, Robitaille, Smoke, Spencer, Steedsman, Woodsworth and Young (*Weyburn*).

The Chairman intimated that Messrs. Woodsworth and Matthews would act with him as a sub-committee to suggest the names of probable witnesses.

On motion of Mr. Bothwell,—

Resolved,—That notices of motion shall be made in writing, and that witnesses shall be sworn.

Mr. C. S. Tompkins, Inspector General of Banks, Department of Finance, Ottawa, Ont., was called, sworn and examined. Witness retired.

Mr. Woodsworth stated that Mr. Arthur E. Darby, Director, Economic Research, Canadian Council of Agriculture, was in attendance, and desired a hearing on behalf of that body.

Mr. Darby was called and sworn. He read a memorandum adopted by the Canadian Council of Agriculture in 1927, and was later questioned thereon. Witness discharged.

Mr. J. C. Saunders, Deputy Minister of Finance, Ottawa, Ont., who was requested to appear for examination to-day, was absent on account of sickness.

The Chairman, on behalf of the sub-committee, suggested that the President of the Bankers' Association be heard at the next meeting, which suggestion was concurred in by the Committee.

The Committee adjourned until Thursday, 15th March, at 11 a.m.

House of Commons,
Room 429,
Thursday, March 15, 1928.

The Select Standing Committee on Banking and Commerce met at 11 a.m., Mr. Hay, the Chairman, presiding.

Present: Messrs. Allan, Benoit, Bird, Casgrain, Casselman, Fafard, Gervais, Hay, Irvine, Ladner, McPhee, Matthews, Perley (Sir George), Robb, Robinson, Robitaille, Smoke, Spencer, Steedsman, Stevens, Vallance, Ward, Woodsworth and Young (*Weyburn*).

The Chairman announced that the sub-committee appointed to suggest probable witnesses had been in communication with Mr. Young, Governor, Federal Reserve Board, Washington, D.C., and had received an assurance that a witness would be provided by that body. The Committee confirmed the action taken, with an instruction to suggest alternative dates to the witness for a hearing.

Mr. Albert E. Phipps, President of the Canadian Bankers' Association, and General Manager of the Imperial Bank of Canada, was called and sworn. He read a statement, and later was questioned. Witness discharged.

Mr. Ladner filed a statement indicating the functions of a proposed Federal Reserve Bank of Canada (incorporated in the evidence taken to-day as Exhibit No. 1).

The Committee adjourned until Wednesday, March 21, at 11 a.m.

HOUSE OF COMMONS,
ROOM 429,
WEDNESDAY, March 21, 1928.

The Select Standing Committee on Banking and Commerce met at 11 a.m., Mr. Hay, the Chairman, presiding.

Present: Messrs. Allan, Bird, Bock, Bothwell, Casgrain, Casselman, Drayton (Sir Henry), Ernst, Guerin, Harris, Hay, Irvine, McLean (*Melfort*), Matthews, Robinson, Ryckman, Sanderson, Spencer, Steedsman, Vallance, Ward, Young (*Weyburn*).

PRIVATE BILLS

The Chairman announced that several Private Bills would be ready for consideration at the next meeting; and, at his suggestion, it was decided that Bill No. 56, An Act respecting the Sun Life Assurance Company of Canada, be the first bill to be considered at the next meeting.

CONSIDERATION OF IMPROVEMENT OF THE BANKING SYSTEM OF CANADA

The Chairman, on behalf or the sub-committee appointed to suggest probable witnesses, stated that Mr. Harding, Governor of the Federal Reserve Bank, Boston, Mass., U.S.A., would be available as a witness on Wednesday, March 28. The Committee accordingly decided to hear Mr. Harding on that date at 10.30 a.m.

Mr. C. S. Tompkins, Inspector General of Banks, Department of Finance, Ottawa, Ont., was recalled and further examined. Witness retired.

Mr. G. W. Hyndman, Assistant Deputy Minister, Department of Finance, Ottawa, Ont., was called, sworn and examined. Witness stood aside.

Mr. C. S. Tompkins was recalled to answer a few questions, and retired.

Mr. G. W. Hyndman was recalled and examination continued. Witness retired.

The Committee adjourned until Tuesday, March 27, at 11 a.m.

WEDNESDAY, March 28, 1928.

The Select Standing Committee on Banking and Commerce opened proceedings at 10.45 a.m., Mr. Hay, the Chairman, presiding.

The following members of the Committee were present:—

Messieurs Benoit, Bird, Casselman, Cayley, Donnelly, Drayton (Sir Henry), Fafard, Guérin, Hanson, Harris, Hay, Irvine, Ladner, Matthews, Perley (Sir George), Robb (Hon. J. A.), Robinson, Sanderson, Spencer, Steedsman, Stevens (Hon. H. H.), Vallance, Ward, Woodsworth, and Young (Weyburn)—25.

The Chairman opened the meeting, and introduced to the Committee the witness for the day, Mr. W. P. G. Harding, Governor of the Federal Reserve Bank of Boston, Mass., who, he stated, had kindly acceded to the request of the Committee to come before them and give them his views in regard to the Banking system of the United States, with particular mention of the Federal Reserve system. He expressed his thanks and the thanks of the Committee and their appreciation in having Mr. Harding with them.

Hon. Mr. Robb, Minister of Finance made some brief remarks, extending a cordial welcome, both for himself and on behalf of the Government, for the courtesy shown by Mr. Harding in coming to share his views with the Canadian people on this important matter.

Mr. Harding was then asked to address the meeting, which he proceeded to do. He described in detail the changes and improvement of the banking system in the United States from the time when that country was small in population and wealth up to the present time, elaborating particularly on the Federal Reserve Banks, and the Reserve Bank system.

On finishing his statement, questions were asked by Mr. Stevens, Mr. Ladner, Mr. Woodsworth, Mr. Spencer, Mr. Hanson, Mr. Matthews, Sir Henry Drayton, and others, which were answered by Mr. Harding in detail.

It being after one o'clock, the Chairman stated that it would, he thought, be necessary to close the meeting. He expressed the pleasure of the Committee in having such a comprehensive address from Mr. Harding, and formally tendered the united thanks of the Committee.

The Committee then adjourned to meet again at 11 a.m. to-morrow—Thursday.

E. L. MORRIS,
Acting Clerk of the Committee.

ROOM 429, HOUSE OF COMMONS,
WEDNESDAY, April 18, 1928.

The Select Standing Committee on Banking and Commerce met at 11 a.m., Mr. Hay, the Chairman, presided.

Present: Messrs. Benoit, Black (Halifax), Bock, Bothwell, Cayley, Chaplin, Donnelly, Geary, Guerin, Hay, Irvine, Jacobs, Ladner, McLean (Melfort), Perley (Sir George), Robinson, Ryckman, Smoke, Spencer, Steedsman, Stevens, Ward, Woodsworth.

Bill No. 38, An Act to amend the Bankruptcy Act (Attendance for Examination). Mr. Varcoe of the Department of Justice, and Mr. Brady, M.P., the sponsor, were heard. Bill stood over.

A resolution of the House, referred to the Committee, viz.:

> "That the Committee investigate and report on the operations of companies carrying on sickness and accident insurance business in Canada",

was called. Mr. McQuarrie, M.P., sponsor, addressed the Committee.

On motion of Mr. Irvine,

Resolved, That the evidence to be taken should be stenographically reported, and that permission be requested to have this done.

CONSIDERATION OF IMPROVEMENT OF THE BANKING SYSTEM OF CANADA

Mr. Henry T. Ross, Secretary. Canadian Bankers' Association, was called, sworn and examined. Witness retired.

On motion of Mr. Donnelly,

Resolved, That a sub-committee of five members, to be named by the Chairman, be appointed to draft and submit to the Committee for approval a report for submission to the House.

The Chairman accordingly named as a sub-committee Messrs. Stevens, Donnelly, Ladner, Woodsworth and Hay.

The Committee adjourned until Wednesday, April 25.

Room 497, House of Commons

Thursday, May 3, 1928.

The Select Standing Committee on Banking and Commerce met at 11 a.m., with Mr. Hay, the Chairman, presiding.

Present: Messrs. Benoit, Bird, Black (*Halifax*), Bock, Bothwell, Casgrain, Casselman, Donnelly, Ernst, Gervais, Hay, Irvine, Matthews, Perley (Sir George), Smoke, Spencer, Steedsman, Stevens, Ward, Woodsworth, Young (*Weyburn*).

Bill No. 38, An Act to amend the Bankruptcy Act (Attendance for Examination).

Mr. Varcoe of the Department of Justice was heard.

On motion of Mr. Stevens,—

Resolved,—That the Committee recommend the withdrawal of the Bill, and that the contents thereof be commended to the consideration of the Government for incorporation when a general amending Act to the Bankruptcy Act is contemplated.

Consideration of Improvement of the Banking System of Canada

The Chairman announced that the Sub-Committee appointed to draft a report for submission to the House had agreed, on division, to submit the following to the Committee for approval, viz:—

" Consideration has been given to a Resolution of the House of Commons, dated February 13, 1928, and referred to this Committee, viz:—

> " That, in the opinion of this House, the time has come for the consideration of the improvement of our banking system and that the Banking and Commerce Committee be instructed to study possible improvements and report thereon".

Five sessions of the Committee were held during which this reference was under consideration.

Witnesses were examined, including O. S. Tompkins, Inspector-General of Banks, G. W. Hyndman, Assistant Deputy Minister of Finance; A. E. Darby, Director of Economic Research of the Canadian Council of Agriculture; A. E. Phipps, President of the Canadian Bankers' Association; The Hon. W. P. C. Harding, Governor of the Federal Reserve Bank of Boston, Mass.; and H. T. Ross, K.C., Secretary of the Canadian Bankers' Association.

As directed in the Order of Reference, the Committee conducted a study of possible improvements to our Canadian Banking system, and many interesting and useful suggestions were made; but early in the proceedings one major

proposal to a large extent monopolized the attention of the Committee, viz:, that a Central Bank of Issue and Rediscount, somewhat analogous in its relations to the Canadian banking system to that of the Federal Reserve Banks to the United States system should be established in Canada. It was urged that through the "open market" operations of such a bank and variation in rates of interest in accordance with changing monetary conditions, control of credit could in some degree be exercised, and that the institution might become a medium through which commodity price levels could be regulated.

The evidence adduced did not, however, convince the Committee that such could be fully achieved. The preponderance of evidence indicated that the operations of a Central Bank of Issue, or Federal Reserve Bank as in the United States, exercised only an indirect or limited influence over price levels and that many of the functions attributed to such Central Bank of Issue and Rediscount were already being performed through the Finance Act. The Committee, however, is of opinion that owing to the rapid expansion of Canadian commercial, industrial and agricultural operations and the possibility in the near future for the need of a much larger measure of credit than at any time in the past, it is desirable that a careful study be made by competent experts of the facilities available under the Finance Act, and to determine if such are capable of ready expansion to meet possible requirements of credit; and further to determine if under the present scope of the Finance Act it is possible for the Treasury Board to deal effectively with unusual variations in the rates of interest; and, lastly, to consider (in case it should be decided that present legislation is too restrictive) what measures should be taken to adapt our present system to the growing needs of the country.

Your Committee, therefore, recommend that the Government, through the Minister of Finance and the Treasury Board, invite into conference the Bankers of Canada, together with other competent persons with experience in such matters, to give further study to the subject matter of this Report, with instructions to take such steps as in their opinion in the premises are warranted. Your Committee feel that while it has accomplished much useful preliminary work, this would be conducive to a more intensive study of the question than to have the Committee itself conduct further investigations and this recommendation would, of course, in no way affect the usual procedure of having all important changes in banking legislation ordinarily made at the regular decennial revisions of the Bank Act submitted for the careful consideration of the Committee.

Your Committee desire to express appreciation of the manner in which evidence was given, and particularly of the courtesy of the Hon. W. P. G. Harding, Governor of the Federal Reserve Bank of Boston, for having come to Canada to give evidence which has proven to be of inestimable value to the Committee.

A copy of the proceedings and evidence is submitted herewith."

Mr. Bothwell moved that the draft report be adopted as the report of the Committee.

Mr. Woodsworth moved in amendment thereto that in the paragraph of the draft report commencing " The evidence adduced did not," the following be inserted after "unusual variations in the rates of interest," viz:

> "to further explore the possibilities of stabilizing the money market with a view to preventing the recurrence of periods of inflation and deflation with their attendant evils;".

The question being put on the amendment, it was negatived on division.

The question being put on the motion, it was agreed to.

Ordered,—To report to the House.

The Committee adjourned, to meet at he call of the Chair.

ROOM 424, HOUSE OF COMMONS,
WEDNESDAY, 23rd May, 1928.

The Select Standing Committee on Banking and Commerce met at 11 a.m., with Mr. Hay, the Chairman, presiding.

Present: Messrs. Bock, Casselman, Fafard, Harris, Hay, Ladner, Lang, McLean (Melfort), Matthews, Ryckman, Sanderson, Spencer, Steedsman, Stevens, Woodsworth.

CONSIDERATION OF IMPROVEMENT OF BANKING SYSTEM OF CANADA

On motion of Mr. Woodsworth,—

Resolved,—That proceedings and evidence taken, submitted to the House with the Seventh Report on the 3rd May, should be printed as an appendix to the Journals of the House, and that 750 copies in English and 250 copies in French should be printed in blue book form.

The Chairman announced the receipt from Mr. G. W. Hyndman, Assistant Deputy Minister of Finance, of two statements, viz:—

1. Exports of gold from Canada, 1917 to 1928.
2. Monthly merchandise trade balances, April, 1916, to February, 1928.

On motion of Mr. Spencer,—

Resolved,—That Mr. Hyndman's two statements referred to above be incorporated in the appendix to the Journals and in the blue book form.

Bill No. 215 (Letter P4 of the Senate), An Act to incorporate The Canadian Commerce Insurance Company.

The Chairman read a letter from Mr. Finlayson, Superintendent of Insurance, stating that he had no objection to the passage of the Bill.

Preamble adopted.

Sections 1 to 9, both inclusive, carried.

Ordered,—To report the Bill without amendment.

Bill No. 314 (Letter K7 of the Senate), An Act respecting The Dominion Fire Insurance Company.

The Chairman read a letter from Mr. Finlayson, Superintendent of Insurance, stating that he had no objection to the passage of the Bill.

Preamble adopted.

Sections 1 to 4, both inclusive, carried.

Ordered,—To report the Bill without amendment.

The Committee adjourned to meet at the call of the Chair.

MINUTES OF EVIDENCE

COMMITTEE ROOM 429,
HOUSE OF COMMONS,
WEDNESDAY, March 7, 1928.

The Select Standing Committee on Banking and Commerce met at 11 o'clock, a.m., the Chairman, Mr. F. W. Hay, presiding.

CHARLES E. S. TOMPKINS, called and sworn.

By the Chairman:

Q. Mr. Tompkins, will you just make any statement you wish.—A. I confess I have no general statement to make in view of not having intimation of the particular line of inquiry which would be proceeded with this morning.

Q. I suppose it would be too general a question to ask of you if you have any thought which might improve banking conditions in Canada.—A. I believe that the banking system as it prevails meets the needs of the country adequately, and while improvements might be necessary from time to time, I cannot see that there is anything radically wrong with it at the present time.

Q. Perhaps this question is more lengthy than the answer, but I wonder if there is any thought in your mind, as there is in the minds of a good many Canadians who are not bankers—far from it—but borrowers of money, that the banks are restricted in the amount of money they are able to loan to their customers. There is a system prevailing in the United States which makes it more favourable for the borrowers, because when a bank is up to its loaning capacity, it is able to borrow from some other source. I believe, upon inquiry, that there is a condition here which practically puts us in the same position. Can you give us a short outline of the manner, when banks are out of funds, by which they recoup themselves?—A. They can obtain advances under the Finance Act by pledging with the government municipal securities and even commercial paper. This Act originated at the beginning of the war and has been, with some modification, continued to serve post-war needs, and it appears to meet the situation adequately.

By Mr. Woodsworth:

Q. Before the witness passes from that: would you give us some idea of the class of securities acceptable to the government?—A. The classes of securities are set out in section 2 of the Finance Act, assented to June 30th, 1923. Shall I detail them?

Q. I would be glad if you will, for my information.—A. Treasury bills, bonds, debentures or stocks of the Dominion of Canada, the United Kingdom, any province of Canada, or any British possession; public securities of the government of the United States; Canadian municipal securities; promissory notes and bills of exchange secured by documentary title to wheat, oats, rye, barley, corn, buckwheat, flax, or other commodities; promissory notes and bills of exchange issued or drawn for agricultural, industrial or commercial purposes and which have been used or are to be used for such purposes.

By the Chairman:

Q. Do these securities carry the endorsation of the bank which borrows upon them?—A. Where it is necessary—Oh yes, commercial paper, undoubtedly.

By Mr. Spencer:

Q. This includes practically every collateral which is deposited with a bank?—A. The chief ones.

By Mr. Woodsworth:

Q. I would like to ask a practical question which has often occurred to me. We have such co-operative organizations as the wheat pool now in existence. The wheat cheques may be deposited with a bank and re-deposited with the government. Is there any reason why the wheat pool itself should not secure advances direct from the government upon depositing these securities?—A. Of course there are various kinds of banking which we have to do. I suggest that it is our impression, on all these various classes of transactions, that their borrowings should be done through the banks at the same time.

Q. That is, it is indirectly an advantage to them to have banking facilities?—A. Exactly.

Q. But so far as the transaction itself is concerned there would be no inherent reason why a government should not accept the securities of the wheat pool for instance, or any other such organization?—A. At the moment I can think of no great obstacle to that.

Q. What would the banks lose in that case?—A. They would lose the interest they make, on the moneys they are able to pay out, that are available for loaning.

Q. But the Government would lose what?—A. I do not quite understand you.

Q. What would the Government lose by such an arrangement?—A. I do not know that the Government would lose anything.

By Sir George Perley:

Q. Would they have to set up any organization to deal with loans of that kind?—A. Unquestionably there would be the added cost of administration.

The CHAIRMAN: Mr. Woodsworth is trying to get at what is charged to the banks for what is lent to them, and how much cheaper it would be to deal directly.

By Mr. Woodsworth:

Q. Take the wheat pool in the West; as I understand it, if the wheat pool could deal directly with the Government you suggest that that wheat pool or other such co-operative organization might possibly be embarrassed because they could not undertake or secure other banking facilities?—A. Quite so.

Q. They might possibly find some difficulty there?—A. They might.

Q. But as far as the bank itself is concerned, it would lose the interest?—A. Quite so.

Q. Which would be a considerable amount. I would like to ask in a moment or two, how much. As far as the Government is concerned you think there would be a little more cost of administration?—A. Undoubtedly I think there would be.

Q. Suppose the wheat pool deposited securities directly, how much more trouble would there be in crediting them to the wheat pool than to the banks?—A. Well, a bank's borrowings are very largely against bonds and negotiable securities. They do not find it necessary to deposit, as a rule, the actual grain documents, although that is provided for by the Act. They might consider it much simpler, if they had available securities deposited, bonds, government, municipal or such other securities as are detailed in the Act.

Q. What are the extra amounts of money issued at the present time under the Bank Act?—A. Well, I think bonds and other securities are mentioned.

Where there is power to deposit grain documents, it is not taken advantage of, except on temporary occasions.

Q. What interest is charged as a matter of fact, to the wheat pool or other organizations for that accommodation?—A. By the banks?

Q. Yes?—A. I am hardly at liberty to say that, even if I were absolutely up to date on the information.

Mr. WOODSWORTH: Possibly we will get that later from the banks.

By Mr. Spencer:

Q. I understand that amongst the securities the banks bring to the Treasury Board there are Provincial bonds; why should not a Provincial government be able to bring its own bonds to the Treasury Board and get accommodation?—A. Provincial bonds lodged by the banks are simply those that they hold against ordinary securities on their investments, and are deposited to get temporary advances, as the need arises.

Q. Whether one or the other, what objection would you have to that legislation?—A. I cannot see that the two transactions have any relation one to the other.

By the Chairman:

Q. Provincial governments that want to borrow money are able to sell their bonds as cheaply as the Dominion Government can, and to the same advantage?—A. At very close to the same rate.

By Mr. Woodsworth:

Q. Is there any governmental control, of any kind whatever, as to the amount of credits which the banks are permitted to issue?—A. Under the Finance Act do you mean?

Q. Yes?—A. You mean the advances by the Government to the banks?

Q. No, I mean the advances by banks to depositors or customers?—A. No.

Q. Nothing whatever?—A. You mean statutory control?

Q. Yes?—A. None.

Q. I mean Governmental control?—A. It is purely a matter of policy.

Q. It is purely a matter of banking policy?—A. Yes.

Q. Is it not true that the amount of credits issued has a direct relationship to general price levels?—A. Well, I hardly feel competent to express an opinion upon that matter. Authorities have gone on record in that connection. I hardly think that any evidence I could give would be of any great value.

Q. Whatever the facts may be, you are clear as to the fact that there is no governmental control whatever, as to the issue, as to the extension, or the restriction of credit?—A. No.

Q. Do you think that that places a very great power in the hands of the banks?—A. I think past experience shows that they have exercised that power wisely.

Q. Is there any restriction whatever placed upon a director of a bank being a director of an ordinary industrial or business corporation, as to the power of such director?—A. No.

Q. In such a case, is there not a possibility that a director of a bank, interested in an industrial corporation, might give preference to that corporation in the extension of credit facilities?—A. I do not think it has worked out along those lines in the past.

Q. You think not—A. Perhaps there have been some few solitary exceptions, but nothing in recent times.

By the Chairman:

Q. There is nothing in the Act which prevents a director dealing with a competitive business, as a director; I think, where an application is made for a loan by a competitor, a director usually sits out. Is that so?—A. The Act provides that a director shall not sit in or have any vote or say with regard to an extension of credit or the granting of credit to a concern in which he is interested, or of which he is a director.

By Mr. Matthews:

Q. The question is framed in a peculiar way. Do you not think so?—A. Not at all.

Mr. MATTHEWS: I do not think the question meets the situation at all.

By the Chairman:

Q. The Act deals with that does it?—A. Yes, sir.

By Mr. Robinson:

Q. Is it not often the case that when a concern is not doing well, the bank appoints one of its directors to the Board of the industry in question in order to see that the finances are properly handled?—A. That may be so.

By Mr. Woodsworth:

Q. May I ask if there was not a case recently mentioned in the newspapers with regard to the directors of the Banque Provinciale having advanced large sums of money to the Montreal Dairy Company?—A. I do not recall having seen any publicity, in a published article. Was it in a Montreal newspaper?

Q. I believe so?—A. I do not believe I saw it.

By the Chairman:

Q. No complaint was made to your department?—A. Not that I know of.

By Mr. Woodsworth:

Q. Supposing a complaint did come, of a bank director taking advantage of his position to lend large sums of money to a company in which he was interested, what action would your department take?—A. After receiving the complaint, if I felt it to be my duty to do so, I would report the action to the Minister.

Q. What authority would he have in that case?—A. Nothing but general authority, I would say.

Q. Is there any limit set to the loans which a bank director can make, shall I say to himself, as a director of another company?—A. No. I have here the amendment to the Act dealing with that. Perhaps I might read it. It is in Section 76 of the Act respecting Banks and Banking; it provides the lending of money under certain circumstances. Sub. Sec. 2 of Sec. 76 provides:—

> 76. The bank may—
>
> 2. Except as authorized by this Act, the bank shall not, either directly or indirectly,—(F.) lend money or make advances in excess of ten per cent of its paid-up capital to a director of the bank or to any company or corporation in which the president, general manager, or a director of the bank is a partner or shareholder, as the case may be, without the approval of two-thirds of the directors present at a regular meeting, or meeting specially called for the purpose, of the board.

Q. But if the Board is willing to give such consent?—A. It must take the responsibility.

Q. The amount then is unlimited? (No reply.)

[Mr. C. S. Tompkins]

By the Chairman:

Q. Is the number of directors constituting a quorum limited by the Act?—A. It is usually done by by-law.

Q. Would five be the minimum for a Board of Directors?—A. It is according to the size of the Board, the number constituting a quorum.

Q. But does the act prescribe that you must have so many directors?—A. No, I think it shall not be less than a certain number.

Q. It is three, for companies in Ontario; I do not know what it is under the Bank Act?—A. That is provided for in Section 18 of the Act respecting Banks and Banking, which states that the number of Directors shall not be less than five, and a quorum thereof shall not be less than three.

By Mr. Woodsworth:

Q. In practice, is there any limit to the amount that may be granted by a local branch bank without reference to headquarters?—A. The limit varies. You mean loans granted upon the manager's own responsibility?

Q. Yes. Can you give the range?—A. With some banks it is much larger than with others.

By the Chairman:

Q. Is there a tendency to place a little more responsibility upon the local managers?—A. Yes.

Q. In recent years, I mean?—A. Yes, during recent years.

Q. Your Department has no power over that?—A. That is a matter of the internal regulation of the bank.

By Mr. Woodsworth:

Q. Do you think there is any tendency, in the case of an extensive country of this kind, when nearly all loans must be submitted to headquarters, that naturally a concern near at hand will receive more consideration than a concern which is more remote?—A. No, I do not think so. I might add that supervisors of the banks in the different districts or provinces, have very substantial loaning limits, within which they may grant credits without reference to the head office, and that all tends to meet that situation adequately, in my opinion.

Q. Is there any relation at all observed as between deposits, I mean, savings deposits, made in any one locality, and the amount of money loaned in that particular locality?—A. No. One of the advantages of our system, as has been often emphasized, is that it allows surplus funds from one community to be employed where they may be needed in the commercial or industrial life of another community in the country.

Q. Is there any way in which the funds of the banks are limited to Canada, that is, the areas in Canada, or is the proportion that can be loaned in Canada limited?—A. No.

Q. Are the banks free to loan abroad?—A. The policy has been that foreign deposits shall take care of foreign loans. That has been the situation.

Q. How is that shown?—A. It is shown in our returns of deposits and loans other than in Canada.

Q. You mean commercial deposits?—A. And savings deposits as well.

Q. What is the relationship between the two?—A. I cannot separate one from the other. The bank's return simply gives the total deposits other than in Canada.

Q. Do you not think that it would be advisable to have some separation?—A. That would be of no advantage.

[Mr. C. S. Tompkins]

Q. Is there a wide distinction between commercial deposits and savings deposits?—A. Unquestionably. Savings deposits in Canada are payable after notice. Deposits from abroad consist of a variety of deposits. Very often in some countries savings accounts are not actually operative, whereas in others the custom has been to act otherwise.

By Mr. Irvine:

Q. If I understood you correctly, you intimated that certain surpluses from certain sections of the country would be available to devote to another section of the country, in connection with branch banks?—A. That is correct.

Q. Is there any relation between the amount of money on savings accounts in the banks and the actual amount of credit released by the banks, or initiated by them?—A. I would not single savings accounts out. A bank's deposits as to the total will enable them to extend credits in proper proportions.

Q. Would that not mean that we would not require to get deposits from any particular community?—A. I am afraid I do not catch the question.

Q. You intimated that surpluses from one section of the country would be available for another section. In view of the fact that any transaction would depend upon the securities of the person or corporation applying, and the fact that borrowing would affect the deposits, is it necessary to put through a transaction of that kind to remove one part of the savings from one part of the country to another?—A. That is too involved a question.

Q. There should not be any difficulty about it. I think you admit that the amount of money on deposit in the savings accounts in Canada has nothing to do with the amount of money issued in the form of credit by the banks. By what authority do you say that we take a certain amount of securities from one part of the country to another to give loans?

The CHAIRMAN: You mean, does the amount of deposits in Section B for instance have any relation in your mind to the credits that may be granted to that section?

Mr. IRVINE: I am not limiting it to any section, Mr. Chairman.

WITNESS: All I can say is that obviously the extent to which a bank is able to obtain deposits, both savings and current, enables it to loan in such proportions as it may consider good policy.

By Mr. Irvine:

Q. There must be some proportion between the amount of savings and the amount on current deposit in the banks?—A. I say that the total amount of deposits, no matter what they are, will put the bank in a position to be able to loan money.

Q. Is it not so that a loan in one section of the community, say on the strength of a man's herd of cattle, is a deposit in fact?—A. That is Mr. McKenna's argument. I believe it is, up to a certain point.

Q. You would not devote that amount of money to another man to enable him to get a loan on his herd of cattle. You are conveying a wrong impression, not intentionally, of the banking system, I would say.—A. I think not.

By Mr. Woodsworth:

Q. May I put it in a little different way? Mr. Irvine speaks of banking practices. Take Brownsville for instance; a farmer comes in and wants to borrow $1,000. At that point he brings in his collateral, whatever it is, to his loan of $1,000 by demand, and is credited with a deposit of approximately $1,000. Is that not a transaction complete in itself, without having to call in Montreal to the aid of Brownsville?—A. Yes, in a sense it is. Of course the

money which is created by the loan, as you term it, might easily go out again, and it might be necessary for the head office or some other section of the country to allow that branch a further amount, to permit it to carry on.

Q. But as far as that transaction is concerned Brownsville stands upon its own feet?—A. Quite so.

Mr. Woodsworth: I cannot see where Montreal or other sections are an advantage, in that immediate transaction.

By Sir George Perley:

Q. Take the farmer who borrows the money; the supposition is that he draws out almost immediately that amount for his wants. It does not remain as a deposit, and if Brownsville has no deposits from other people, it might be necessary to draw upon some other resources of the bank?—A. That is correct. The deposit can only exist as long as the amount is left at his credit.

By Mr. Woodsworth:

Q. But it appears in the reports that the bank has received a deposit and has issued a loan of $1,000?—A. The deposit may only exist for two or three days.

Q. It does not require currency to make it good?—A. Not at that particular moment.

Q. What is true of one individual transaction is true of the whole body of transactions?—A. Up to a certain point.

Q. When you speak of foreign countries, and you say that they carry the loans, that is merely saying that there is sufficient collateral put up in those foreign countries to provide for the finances?—A. Sufficient deposits to finance the loaning business in those countries.

By the Chairman:

Q. A man may borrow $1,000 to purchase a herd of cattle. That transaction is complete in itself. But you may take $1,000 and it may go to twenty or thirty people, merchants and so forth, and it may not reach Brownsville for months; in fact it might never become a deposit, or it may be months and months before it becomes a deposit.—A. It might conceivably stay there for an hour, or for twenty-four hours.

By Mr. Woodsworth:

Q. But it is regarded as a deposit?—A. It is regarded as such.

Q. I want to get from you this: immediately a loan is made, is it not entered in the books as a deposit?—A. Where is the money to come from, if a man comes in three hours afterwards and wants to draw it all out?

Q. In currency?—A. Yes.

Q. The payment is all done by cheque?—A. Yes, but the cheque has to be met; the bank has to pay somebody for the cheque.

Q. But the thing is cancelled?—A. You mean, if he pays the loan simultaneously?

Q. I mean that it is not necessary for the bank to produce, in that case, any currency?—A. If he pays by cheque, do you mean?

Q. Yes, if he pays by cheque?—A. Certainly; it must produce currency to pay somebody.

By Mr. Irvine:

Q. Is it your suggestion that there must be cash as these loans are required?—A. Yes, cash to meet the loans or the deposits.

[Mr. C. S. Tompkins]

Q. Would you care to tell us how much actual cash is required to meet all the loans in Canada in that regard?—A. That is asking me a rather difficult question.

Q. It is on record, is it not?—A. I do not know that it is.

The CHAIRMAN: The Deputy Minister may give that more accurately. As a matter of practice with the banks, it does, or it does not, become a deposit. I deposit $1,000, and they give me credit for it. I am leaving it at my credit, wholly or in part, and if I want the currency I write a cheque and get the proceeds, it may be, of my discount.

By Mr. Ernst:

Q. But it has to come from somewhere. The deposits are not increased. It may come from outside, or it may come from another branch?—A. I say again that the creation of deposits through loans is true up to a certain point, but only up to a certain point.

By Mr. Spencer:

Q. When is that point reached?—A. Perhaps I should cite an example. It is a common thing—perhaps I am not permitted to refer to United States banks—but it is a common thing for them to insist upon a certain amount of free deposits to be made, to keep up to their borrowing customs. They are much more particular in some respects than in Canada. A man getting $5,000 might be expected to leave 20 per cent.

Q. Would you say that all loans are lent from savings deposits?—A. No.

Q. You say no?—A. Yes.

Q. Would you admit that a security that is lodged by a customer is a means of creating the loan?—A. It is a security behind the bank.

Q. The security creates the loan?—A. Well, the bank might not loan upon that man's name alone. It is the security that enables him to get the credit.

Q. A bank does not necessarily have to have a surplus deposit to borrow from to lend to that man?—A. They might have a demand deposit, to be able to meet it.

Q. But would they have to have a demand deposit to grant him the loan? —A. They have to have resources from somewhere. They have to have the money to advance to him.

Q. Can you define that a little more particularly?—A. I think sufficient evidence has come before the Committee before now. I do not think I can add anything to it.

Q. I think Sir Edmund Walker made the statement that only 4 per cent is necessary in some medium of exchange, such as notes or coin. Would you agree with that statement?—A. I cannot say. I am not in a position to say. Sir Edmund Walker was a very eminent authority, and after the fullest consideration I am not prepared to dispute it, neither would I care to go on record as agreeing with it necessarily.

Q. The point you have taken is, that you would have to have some money to give out. You say you do not want either to accept or reject a statement of Sir Edmund Walker. I take it for granted that Sir Edmund Walker is correct when he says that only 4 per cent is necessary in some medium of exchange, such as notes or coin, and that over 96 per cent is cheque money. Would that be correct?—A. Opinions might vary as to the percentages I presume. That is somewhat along the lines of Mr. McKenna's argument again, I think.

Q. You say you have to have money?—A. Yes, certainly.

Q. That is to say, you would allow the client to draw by cheque?—A. Yes.

Q. To cheque his money out?—A. Some term it that.

The CHAIRMAN: Mr. Tompkins will be available to us at any time. I rather think that we should give him some notice. I am not asking you to be restricted in your questions at all. We will have him again, if desired.

[Mr. C. S. Tompkins]

By Mr. McLean (Melfort):

Q. Suppose a customer goes into a bank and borrows on his own statement, $1,000, on his own credit; he leaves one-half of it on deposit for a certain time. Supposing another man comes in immediately after, is that bank in a position to loan part of that $500 that has been left there, if the security is reasonably good? Does it affect the transaction as between the bank and the first customer, if the customer has left one-half on deposit?—A. It would be taken into the general volume of deposits, and to that extent it would be available.

Q. The bulk of the banking business is done on credit, I presume. Is it the practice of the bank, where money has changed hands, if I go in, sign a note and get $1,000 and $500 is left to my credit, to take that into consideration when another customer comes in and wants a loan?—A. It is included in the general volume of business.

By the Chairman:

Q. Would the local manager pay any attention to that outside transaction?—A. No, he would take it in in the total.

By Mr. Woodsworth:

Q. What advantage is it to the banks to have their own currency?—A. I think the value of that privilege has been very greatly exaggerated.

Q. Can you give us any idea as to the value to the banks?—A. I think the late Sir Edmund Walker went on record in 1923 as saying that the value would be somewhere between one and two per cent. I would hestitate to be more exact than that in an estimate.

By the Chairman:

Q. That is, note circulation?—A. Yes.

Q. It was formerly worth very much more?—A. Yes.

By Mr. Woodsworth:

Q. There has been quite a decrease in the value of the privilege?—A. For the simple reason that the circulation in excess of dollar for dollar should be made good in a central gold reserve. In addition to that they have to pay 1 per cent to the government. The cost of printing and replacing them frequently is quite a substantial item.

Q. Would you say that the extension of the practice of payment by cheque in proportion to other types of money had anything to do with that?—A. No, I would not. I do not believe it has any relation to it.

By the Chairman:

Q. I suppose the increase in deposit savings in the bank, has brought in quickly the note circulation, whereas before it was held at long terms?—A. Transportation loans have been a factor. There was a time when they were not a factor, but that has passed long ago.

By Mr. Spencer:

Q. You said it did not pay the bank very well to issue notes over and above the amount of its paid-up capital and reserve because they have to deposit dollar for dollar in the Central Gold Reserve?—A. Or Dominion notes, I should have added that.

Q. Can you inform the Committee to what extent the Reserve is gold and to what extent it is Dominion notes?—A. At the end of December, the total deposits in the Central Gold Reserve were $74,000,000 in round figures, of which, $21,000,000 roughly was in gold coin and the balance in Dominion notes.

[Mr. C. S. Tompkins]

By Mr. Young (Weyburn):

Q. What percentage of the funds is kept in reserve in the various branches to handle the day's business, as it goes on from time to time?—A. I could not give you any particular amount. Are you referring to any specific branch?

Q. No, the money they have to keep practically idle?—A. At the end of December the bank's total holdings of gold and subsidiary amounted to $76,-519,000, and of Dominion notes $138,803,000. That is what is commonly known as cash.

Q. What percentage is that of all the available money they have—all their deposits?—A. The percentage of their deposits? I would have to work that out for you, but I could give you that at a later meeting.

By Mr. Irvine:

Q. I understood you to say at the outset that you had not discovered any reasons why there should be any improvements in the banking system of Canada; that you thought it was functioning fairly well, and I think we are all in general agreement with that—at least in some respects. I think you said at a later time that there was no statutory control of credit—the actual amount of credit issued, and I think you also said you would not commit yourself on the question as to whether or not there was a relationship between the amount of credit issued by the bank and the price level. If it should transpire that there is a very decided relationship between the amount of credit issued and the price level, and the changing price level on the other hand has a very direct effect upon the lives of people, would you be interested in changing your mind on your statement that you think there is no need for improvement?—A. There is no telling what I might do; it is quite possible I might change my mind if I could be convinced by investigation along those lines, that the result you intimate would be obtained.

Q. Is there any control of the price of money? Is there any agency, legal or illegal, controlling the price of money in Canada?—A. Do you refer to the interest rates in general? No. Interest rates find their own level very largely. Competition is much keener in the banking field than ever before, and that very fact in itself, I think, cures any situation which might not be just—

Q. Are you acquainted with the work of the Federal Reserve Banks in the United States?—A. I have a fair knowledge of it, yes.

Q. You know the process by which they control the price of money?—A. I have a rough knowledge of it.

Q. Would you like to give an opinion as to whether or not you think it might be wise for us to have a similar institution for the control of the price of money in Canada?—A. I do not believe it is necessary under our system; I believe it was a very necessary thing for the United States, where they had a multitude of small banks and no co-ordination in financing, but I do not believe it is necessary for this country.

Q. I understood you to say a moment ago that our competition in banking was so keen here that we could pretty well be assured that the rate of interest would stay at its proper level. The competition in the United States in banking is surely much greater than in Canada, if they have more banks?—A. Not necessarily; they are largely these local banks with a very, very narrow scope.

Mr. Ernst: And monopolistic in their area.

By Mr. Irvine:

Q. I do not think there is any doubt that the greater the number of institutions the greater the competition. The wrecks lying along the road prove that. But I am not quite sure as to why you assume that competition in itself is sufficient to regulate the price of money to its proper relation with the price levels of the country, since there are no regulations.—A. I have nothing further to say on that point.

[Mr. C. S. Tompkins]

Q. I think perhaps my questions at least are outside the professional duties— —A. The practical practices. I say, with all respect, that I think you are dealing with a theoretical or economic side of the question, and possibly you might find more valuable witnesses than I in that respect.

Q. I would not say that, but perhaps you are not bound to answer this question.

Mr. YOUNG (Weyburn): Mr. Irvine, you spoke of the proper relation to the price level. What do you mean?

Mr. IRVINE: I would answer that by asking my hon. friend if he thinks there is a proper relation.

Mr. MCLEAN (Melfort): It seems to me the law of supply and demand would control that.

By the Chairman:

Q. Have we not a legal lending rate in Canada?—A. The banks cannot recover in excess of 7 per cent.

By Mr. Spencer:

Q. You say a bank cannot recover if a charge is more than 7 per cent?—A. No.

Q. There is a legal limit in that respect?—A. Yes.

Q. No penalty behind that?—A. No.

Q. Therefore there is nothing to stop a bank charging 17 per cent if it can collect it?—A. I have not heard of such a fancy rate as that.

Q. There is no limit for the bank going above 7 per cent?—A. No; that has been considered in making various revisions of the Act.

Mr. SPENCER: We moved an amendment to put a penalty there, but the forces were too strong against us.

Witness retired.

ARTHUR E. DARBY called and sworn.

By the Chairman:

Q. Now, Mr. Darby, would you just open by making some little presentation, and we will find ample questions to ask you as you proceed?—A. With your permission, Mr. Chairman, I would like to make a statement and then perhaps at the conclusion of the statement I may be questioned, and I will be glad to answer any questions if I can.

The policy of the Canadian Council of Agriculture on banking reform—

By Mr. Ladner:

Q. Perhaps you would state at the beginning your position and your experience.—A. My position, Mr. Chairman, is that of Director of Economic Research for the Canadian Council of Agriculture. I have held that position for some four years, having been connected with the farmers' movement for some time before that.

The policy on banking of the Canadian Council of Agriculture—

By Mr. Harris:

Q. I would like to know if you are here of your own volition, or on resolution from the Canadian Council of Agriculture?—A. The position, Mr. Chairman, is that I was in Ottawa on other business, and in view of the adoption by the Council of the policy which I am about to describe to you, it was felt by

[Mr. Arthur E. Darby.]

some of our western friends that the committee should be put in possession of the views of the Council on this matter. The statement which I shall make embodies a memorandum adopted by the Canadian Council of Agriculture early in the year 1927.

By Mr. Matthews:

Q. What is the Canadian Council of Agriculture?—A. The Canadian Council of Agriculture is the nearest approach to a national organization which exists in the farmers' movement. At the present time it consists of representatives of the United Farmers of Ontario, the United Farmers of Manitoba, the United Farmers of Alberta and the United Grain Growers, Limited. At the time of the passage of this resolution the Farmers' Association in Saskatchewan was also a member of the Council, but that body is no longer in membership.

By Mr. Harris:

Q. The resolution cannot be very long; will you give us the resolution of the Council of Agriculture which you have on record?—A. I have no specific resolution, Mr. Chairman, authorizing me to appear before this committee, but the memorandum, which I propose to summarize for the benefit of the Committee, was formally adopted by the Canadian Council of Agriculture, and I have no doubt at all it is the wish of the Council that I should present its policy to this committee.

The CHAIRMAN: What the committee is anxious to have is any grievances or complaints which you feel should be presented to it.

The WITNESS: The Council meets only twice a year and it would be very difficult to get such a specific authorization in time for the work of this committee.

By Mr. Harris:

Q. Are you giving your own views to this committee, or the views of the Council of Agriculture?—A. The views which I am about to state are the views adopted by the Canadian Council of Agriculture specifically at its annual meeting in 1927. I could file with the committee here, by sending to Winnipeg, the terms of the resolution adopting this statement.

Q. I want to make sure that the Council of Agriculture will endorse everything you say.—A. I will be very careful to confine myself to statements which will represent the views of the Council, so far as I know them.

These questions, Mr. Chairman, are naturally approached by the Canadian Council of Agriculture from the standpoint of the immediate requirements of agricultural communities and their satisfaction with the least possible disturbance of existing institutions rather than from that of devising an ideal system of currency and banking. The latter problem is international in its scope, and its solution will necessarily be hampered by consideration for the actual economic conditions and the political exigencies of the various countries affected. Monetary reform must be achieved by an evolutionary process in which the steps will be taken under pressure of circumstances and will consist of expedients designed to overcome immediate and practical difficulties. The deliberate adoption of any new and revolutionary theory need not be anticipated.

During the disturbances of the last 12 years the currency of Canada exhibited, in comparison with that of other countries, a high degree of elasticity and suffered less inflation and depreciation than most other currencies. The return to the gold standard in Canada resulting from the re-establishment of freedom to import and export gold, and of note redemption, in July of 1925, was accomplished without difficulty—almost, indeed, without attention being drawn to the change. Currency reform in Canada, therefore, should be incidental to reforms in the banking system of the country.

[Mr. Arthur E. Darby.]

Consideration of the banking system in Canada leads to the conclusion that dissatisfaction with it is felt chiefly by agriculturists. Considered as classes, industrialists, merchants, traders in general and the professional workers are not the complainants. In fact, banking has been developed to meet the needs of the commercial and industrial classes. Banks exist to make profits and have naturally developed the best-paying services. In comparison with industrial production and commercial activities, agriculture is slow in turnover and less certain of its results in terms of profit and loss. It is a primary industry; that is, it produces the commodities which the secondary industries and the traders use as the basis of their activities. It assumes the real risks incidental to production; the secondary industries assume risks also, but to a more limited extent.

No surprise can be felt that banking has not developed services peculiarly adapted to agricultural needs. The rapid growth of industrial enterprise and commercial undertakings has offered an inexhaustible sphere of legitimate service and profit-making for banks. But the need of agriculture for banking services has become the more pressing in proportion to its neglect. The immediate and practical question, therefore, is: Can the existing banking system adapt itself to agricultural needs? If not, new institutions which can do for agriculture what the banks cannot do, or do not find profits sufficiently attractive in doing, must be set up.

To some extent, of course, the banks have given service to agriculture and the other primary industries. They have been eager to obtain their deposits and they have financed agricultural operations—though upon terms which are regarded by agriculturists as unduly onerous. In Canada the chief financing of agriculture has been done by mortgage loan companies. Here again agriculturists complain of the comparatively high costs of the services rendered. Whether the complaints of agriculturists of excessive costs of financing are justified can be determined only by experience gained in attempting to satisfy their needs more cheaply and efficiently. The existing agencies assert the justice of their charges in relation to the risks incurred, the duration of loans and the costs incidental to the provision of the services. That other nations, confronted with similar needs, have been compelled to devise special machinery for financing agriculture and mobilizing the borrowing power of the less wealthy classes is a matter of record.

Students of agricultural financing agree in the conclusion that the ordinary commercial banks are not adapted to serve agriculture as cheaply and efficiently as they serve industry and commerce. But in endeavouring to determine what reforms are practicable some attention must be paid to the nature of the need to be satisfied. Long-term loans do not fall within the scope of this discussion since it is not, as a general rule, part of the function of banks to provide such accommodation. Such loans are usually made on the security of land mortgages, which represent more permanent investments than banks, as such, find desirable. It ought, however, to be pointed out that in the absence of adequate facilities for bank, or short-term loans, the tendency to use the land mortgage loan for purposes to which it ought not be applied is encouraged. When this is done loans are apt to be larger than required, the proceeds of the reproductive operations financed are not applied to the immediate liquidation of the loan as would be done in a commercial or industrial transaction, and the borrower is insensibly led into bad financial practices.

Strict definition of the proper uses of the mortgage loan is a real need. If such be made it will be realized that what is really lacking is the machinery by which agriculturists may finance operations covering short and intermediate terms (six months to three or four years) without resort to the mortgage as primary security. Long-term mortgage loans occupy a field to themselves, but

[Mr. Arthur E. Darby.]

short and intermediate loans for reproductive purposes fall within the scope of banking operations. If such loans can be properly made, the effect must be to increase the yearly net income of the agriculturist and, therefore, to improve his position as a borrower on mortgage, enabling payments of interest and principal to be made with greater ease.

The provision of short and intermediate term loans to primary industries, like agriculture, entails for the ordinary bank a larger element of risk than is consonant with low charges, and a tendency to "frozen" loans. In the opinion of many these factors operate more powerfully on large centralized banks with many branch offices, such as exist in Canada, than they would do upon small "local" banks. The small bank must of necessity, it is argued, keep in close touch with local needs and be managed with more regard to individual character and opportunities.

On the other hand, greater stability and power to withstand financial vicissitudes is conferred by the system of large centralized banks, operating through local branches. In any case, the ordinary commercial bank, operating for profit, cannot cover the whole field of short-term and intermediate credit. Co-operative credit societies or co-operative people's banks alone can serve the needs of some classes in the community. That groups of people, organized co-operatively, may command credit which as individuals they cannot command is now generally recognized.

It may be, as European experience would seem to indicate, that in co-operative credit and banking lies the salvation of agricultural finance. Banking, like any other human activity, will depend for its success—its safety, combined with satisfactory service—upon the quality of management and direction it receives and the loyalty of those interested and concerned in the business. No laws and no governmental agencies can guard against the effects of incompetence and apathy though they can detect and punish the incompetent and the criminal. The condition to be avoided is that in which, through over-anxiety to protect people from the consequences of their own mis-management and lack of interest or precaution, the development of institutions suited to their peculiar genius is prevented. The application of initiative and energy in banking is just as necessary as in any other sphere and the conclusion can hardly be avoided that Canadian banking law does almost completely close the door to the development of institutions calculated to solve the problems associated with short-term and intermediate credit for farmers and other classes whose individual resources are inadequate to supply their credit needs, however sound "moral risks" they may be.

The CHAIRMAN: I do not want to interrupt you, but I think the Committee would like to know if there is much more of that, and if it would not be possible for you to eliminate any further reading—

The WITNESS: It will not take very long.

Mr. LADNER: This is the finding of a very important body, the Canadian Council of Agriculture—and I think it is highly important that the report of their conclusions be included in their report.

Sir GEORGE PERLEY: Are you reading from a pamphlet?

The WITNESS: I am reading from the substance of a memorandum adopted by the Canadian Council of Agriculture as its banking policy.

Sir GEORGE PERLEY: And printed where?

The WITNESS: Printed in Winnipeg.

Sir GEORGE PERLEY: Printed by the Council for circulation?

The WITNESS: Yes.

Sir GEORGE PERLEY: Privately or for general circulation?

[Mr. Arthur E. Darby.]

The WITNESS: For its own members, yes.

Mr. McLEAN (Melfort): Perhaps Mr. Darby could hand this in for the records, and the Committee could read it at its leisure; I do not think it is necessary to wait for him to read it now but he might deal with the salient features of it.

The WITNESS: My fear is that the proposal put forward by the Council cannot be understood without the introductory matter; this is clearing the ground in order to understand what the Council is driving at. I think if I read only the concrete suggestions, the Committee would not understand what was in the minds of the Council, and perhaps might misjudge them.

The CHAIRMAN: Go ahead.

The WITNESS: Existing legislation confers a virtual monopoly on the large chartered banks and the state itself aids them in their operation. The protection of bank shareholders and depositors by laws regulating banks has, it is true, become essential. The individual shareholder or depositor finds it impossible to exercise supervision over, or to obtain sufficient knowledge of, the banks' operations and is, therefore, unable to protect his own interests. The state has been compelled to place the banks under legal necessity to supply certain information, to maintain certain reserve funds and to comply with regulations calculated to protect their shareholders and depositors.

Confidence in the existing banks—and confidence is the basis of all banking operations—has been maintained by this legislation. But the ability of the people at large to establish banks as and when their interest dictates has been almost completely sacrificed. Regulation by the state bids fair to develop a monopoly in banking which may ultimately compel state ownership and operation of banks. If private initiative is to be invoked in the solution of the credit and banking needs of agriculturists and other classes similarly placed, those engaging in the enterprise must be prepared to accept its risks along with its benefits and legislative regulation must be relaxed sufficiently to enable private enterprise to be applied under favourable conditions. The state must either provide banking institutions adequate to the needs of the people, or it must so frame its regulatory legislation as to enable the people to provide them for themselves. To place in the possession of a few large corporations existing for private profit a quasi-monopoly which fails to satisfy the whole requirements of the people, or which has the power to refuse satisfaction except at undue cost, is an abuse of legislative power. If the State, on the other hand, places it in the power of its people to establish institutions suitable to their needs, or to set up banking facilities in competition with those already in existence, if they fail to render service or render it at undue cost, a valuable corrective is supplied even though the powers in question may never be exercised. No monopoly exists when individuals or groups are at liberty to provide their own banking services; but this liberty is not enjoyed when legislative restrictions are onerous or in practice prevent new institutions from being developed. To restore a lost liberty, or power for self-service, is not to compel action to be taken or the power to be made use of.

In the gradual evolution of the laws governing Canadian currency and banking some anomalies have inevitably arisen. Thus our metallic coinage is still provided by a royal mint belonging to the British government. Some regulatory functions in relation to banks are exercised by the Canadian Bankers' Association, some by the Treasury Board and some by the Department of Finance. In existing conditions these anomalies produce no very undesirable results; but conditions are constantly changing and legislation should be as far as possible drawn to permit of legitimate changes and developments freely taking place.

The issuance of currency is commonly regarded as a governmental function, and while some portion of Canadian currency is provided by the Dominion government, by far the greater amount in ordinary circulation is issued by the banks themselves under conditions laid down by the law. The withdrawal from the banks of this privilege would constitute a revolution in Canadian banking, only to be justified by the existence of serious abuses. No abuse of the right to issue currency is known to exist. But circumstances may easily arise in which a national currency, in the strict sense of the term, might be required and the establishment betimes of machinery capable of supplying that requirement without dislocation of business or serious inconvenience would be a wise provision.

Similarly the double liability now resting upon bank shareholders, however suitable to existing conditions, could not be insisted upon in relation to banks founded under different circumstances or to co-operative banks. A treatment of shareholders in banks different from that of shareholders in other corporate businesses is not, in itself, very desirable nor has it been as effective as may have been anticipated. Provision for its removal if and when banks surrendered or lost the right to issue currency might reasonably be made. Consolidation of the scattered functions performed by the Treasury Board, the Department of Finance, the trustees of the gold reserve, etc., would lend greater stability and coherence to the banking system and would enable changes to be made in response to changing needs with less resistance and confusion.

In the light of these considerations, and of considerable study of banking conditions and institutions elsewhere, the following suggestions are advanced as embodying a policy which would be of benefit to the rural communities and of benefit also to the banking system of the country in its relation to the future needs of the people:

1. The establishment of a National Bank of Issue and Re-discount. In this bank stock would be taken by the Dominion government, the chartered banks in proportion to their capitalization, and, in certain circumstances, the provincial governments. To it should be transferred the duties now performed by the Treasury Board, so far as they affect those banks, and the Canadian Bankers' Association, together with the custody of the central gold reserve and the circulation redemption fund. Government banking should also be handled by the National Bank. The bank should not receive deposits from the public or carry on a general banking business in competition with the chartered banks. It should take over the Dominion note issue and the making of loans to banks such as are now made under the Finance Act, expanding this function as the need develops into a general re-discounting business similar to that done by the Federal Reserve Banks in the United States.

Ample business for a National Bank is already available, but its readiness to conduct re-discounting business—to act as a bankers' bank—will make possible the relaxation of the present quasi-monopoly enjoyed by the 11 chartered banks through the passage of legislation enabling local banks to be established where there is the genuine need and desire to establish them. This brings us to the second suggestion:

2. The Bank Act to be amended or a supplementary act passed permitting the formation of local banks with a minimum capitalization of $35,000. Might be increased to $50,000. These banks would not be permitted to issue notes or to make loans in excess of a given multiple of their capital. They would be required to obtain currency from the National Bank by deposit of securities and re-discounting (the National Bank maintaining an adequate gold reserve) and to deposit a percentage of their deposits with the National Bank as a reserve (say 15 or 20 per cent). In return they would enjoy the re-discounting privileges extended by the National Bank. They would be subject to strict inspection

[Mr. Arthur E. Darby.]

and the National Bank might, under safeguards, be empowered to institute a receivership and wind them up if and when improper management occurred.

This would mean the creation of a distinct class of bank, doing a local business and using national currency, whose shareholders and depositors (to a small extent) would be subject to ordinary business risks like the shareholders of any other concern. The shareholders in such banks would not be subject to the double liability; on the other hand, the banks would not be liable for note circulation and would maintain a reserve for the protection of depositors. The maintenance of a sufficient reserve against deposits should be required of the present chartered banks also.

3. Any bank chartered under the present law should continue unaffected, except by the changes resulting from the substitution of the National Bank for other regulating agencies and by the institution of a reserve against deposits. But any such bank desiring to relinquish the right of note issue should be permitted to do so, its shareholders then being relieved of the double liability.

4. To some extent the intermediate credit needs of agriculture would be met by the chartered banks under pressure of the possibility of competition from local banks, or by means of actual competition from this source, supposing the public to avail themselves of the opportunity provided. But in order to enable farmers and citizens of small means to obtain the benefit of joint credit on personal and chattel mortgage security, provincial and federal legislation should be passed enabling co-operative credit societies (short and intermediate) and people's banks to be set up. This legislation ought to be merely permissive. No pressure should be exerted to encourage premature ventures into co-operative finance. It is to be presumed, however, that, if the complaints of farmers and others against existing banking and credit agencies are well founded, they will in course of time realize the value of co-operation as the real remedy. When that takes place the legislation will dirct their efforts to help themselves by joint action and liability.

Such co-operative credit societies and banks should be permitted to do a re-discounting business with the National Bank under proper regulations. If formed under provincial legislation the provinces might be required to take some amount of stock in the National Bank proportioned to the use made of it by the co-operative societies and banks.

Ample material and experience to form the basis for such proposed legislation is available. The Caisses Populaires of Quebec and the many examples of co-operative credit organizations should enable permissive laws to be drafted with comparative ease.

The suggestions made do not go extensively into detail. It is inevitable that innumerable points will arise in discussion of them which cannot be dealt with in a short statement. But the major issues have been touched upon and such a policy as that described would, if adopted, make a beginning with nationalizing the currency and would clear the ground of many difficulties at present imposed upon those who would endeavour to apply their own energy and initiative to the solution of their financial problems. The main consideration is to avoid too much paternalism and state intervention in the performance of economic functions. Hence the recommendation of permissive rather than mandatory measures, accompanied by relaxation of legislative restrictions productive of the existing quasi-monopoly in banking.

That Mr. Chairman, represents the policy adopted by the Canadian Council of Agriculture.

By Mr. Ladner:

Q. What is the proper name of the Act, Mr. Darby?—A. The Federal Farm Loans Act.

 [Mr. Arthur E. Darby.]

Q. To what extent does that Act solve the problems of the agriculturist who, under your memorandum, are dealt with, or cannot be dealt with by the existing banks?—A. I think, Mr. Chairman, the answer to that is that it does not solve the short term and intermediate credit problems of the farmer at all. It is the long term loan scheme based upon a mortgage. The point I want to bring out in the memorandum is this: that if you use the long term mortgage loan for short term purposes, you lead the farmer into bad financing. I rather imagine that this new scheme has been so far adopted in the provinces of Alberta and Nova Scotia, but it will not remedy the circumstances with which the memorandum primarily deals.

Q. What do you consider to be the object of the loan?—A. For productive purposes. Agricultural operations take a longer time than commercial operations. These are only sufficient to cover the reproductive purposes of the agriculturist, and the profits should be used to pay off the loans.

Q. What period do you suggest?—A. I would say that anything from one to two years would constitute an intermediate farm credit.

By Sir George Perley:

Q. Is there any statute under which a co-operative society can be formed? —A. I do not think there is any Federal legislation actually governing the formation of co-operative societies. Some of the provinces have such legislation, but there is no federal legislation of that character.

By Mr. Ladner:

Q. It is a provincial matter?—A. Yes.

By Sir George Perley:

Q. I remember it being discussed some years ago, very fully, in the House, but I cannot remember whether any statute was actually passed or not?—A. I think not. We had Bills before the House many times. I remember what you refer to.

Q. There was a lot of discussion about it?—A. Yes, but no legislation was passed, as far as I remember.

By the Chairman:

Q. Mr. Darby, each province has some loaning system of its own?—A. Yes, but the most successful system is the long-term loan based upon mortgage securities.

By Mr. Matthews:

Q. Can you state in general terms that the present banking system does not meet the needs of the agriculturist of the West?—A. No evidence has been given to that effect.

Q. No supporting statement; it is merely a general statement?—A. Quite.

Q. You just state that something is required in addition to the present system; is that purely an assumption?—A. There has been a mass of experience brought to the attention of the Canadian Council of Agriculture. I think the hon. member will find that in the West there is a very general appreciation of the fact that their intermediate term credits are not being taken care of along proper lines, under the present system. You will find complaints that individuals cannot get money from the banks. The banks give certain reasons for not making the loans. We have been getting a number of instances of extreme hardship.

[Mr. Arthur E. Darby.]

By the Chairman:

Q. At the beginning of your statement, I think you stated that one of the provincial organizations was the Saskatchewan organization, which at the time this resolution was passed, was a member, but is not now a member. It not being a member now, is no reflection upon this memorandum?—A. None whatever.

Q. It is only a difference of opinion that might exist?—A. It arose, Mr. Chairman, out of two different farmers' bodies in Saskatchewan. An entirely new body was created, which was not in membership with the Council. Generally speaking, that represents the view of the farmers of Saskatchewan as well as others.

By Mr. Woodsworth:

Q. I think the Saskatchewan farmers should go a little farther than that. What do you say to that?—A. I think the Alberta farmers would go a great deal farther than this memorandum goes.

By the Chairman:

Q. Money is not so hard now?—A. No, sir. It is a question of devising machinery which will really serve the productive operations of the agriculturist. There is a handicap in the non-existence of these institutions.

By Mr. Cayley:

Q. The provinces do not deal with that?—A. I think banking is specifically excepted, from the operations of the Act. There are certain provincial institutions which provide long-term loans, in Saskatchewan and Manitoba, and in most of the other provinces, but they are not operative.

By Mr. Matthews:

Q. Would you care to state to the Committee what rate of interest the banks are charging in the West to-day, to farmers?—A. I have no information whatever as to the banks. I know the loan companies' rates of interest. It would certainly be eight per cent. The prevailing mortgage loan rate of interest in Manitoba at any rate to-day on good risks is seven per cent.

By the Chairman:

Q. May it not be that the rate is somewhat higher than it ought to be, on account of local legislation, which makes farm loans not as desirable as they should be?—A. That is one cause.

By Mr. Ladner:

Q. The Canadian Council of Agriculture was favourable to the establishment of a Federal Reserve Bank for re-discounting?—A. Yes.

Q. In such a case, how would you propose to organize the management or the directors?—A. We have not gone extensively into the details. We imagine that once the principle is accepted, the establishment of the actual machinery would not be a difficult matter, in view of the existence of similar banks in Great Britain and in the United States of America.

Q. We found in 1923 that that would be a very very important matter. The point would be, to what extent would such a bank be controlled by the existing banks, or whether it should be a Federal bank; my point is whether your Council has considered such a question, and if so, whether they have any suggestions to offer?—A. I think we have considered that specifically.

By Mr. Woodsworth:

Q. I notice that Mr. Darby suggests that a plan should be adopted such as the Federal Reserve, that is, that stock should be taken by the banks in proportion to their business. Might the result not be the same in that case, as I understand is the case on the other side, that the authority rests very largely in the hands of the banks and particularly in the hands of the large banks?—A. I think you must have the central authority in some hands. I cannot imagine it being in better hands than experienced bankers. Banking is a trade, and must be carried on along trade principles. I cannot imagine that any other kind of control would be acceptable. In addition to that, we have the experience of the United States in the last two years which has been pretty conclusive upon that point. I would go so far as to say that the Federal Reserve Bank, and the Bank of England have had an enormous and beneficent influence throughout the world.

By Mr. McLean (Melfort):

Q. Would you mind describing or accounting for the extreme deflation of the American farmer as compared with the comparatively sound conditions in Canadian agriculture, in its relationship to the Canadian banking system?—A. In what period?

Q. Say in the last five or six years?—A. I would say this, that a large proportion of that ground was covered in the evidence given to this committee in previous years. I would not be prepared to discuss the question of how far the Federal Reserve bank system has been responsible for or at the bottom of these increased prices. I think that is a very difficult question to deal with and hard to tie up, as a matter of fact.

Q. My brief study of the Federal Reserve in the United States, in the past two years, indicates to me that it has been unsatisfactory in helping the farmers on the land. I do not pretend to pose as an authority, but I would like to ask you what you think of it, during those two years, as compared with our perhaps more careful banking system, and smaller or lesser deflations and sounder conditions in agriculture to-day, in western Canada; do you agree that the Federal Reserve Bank has not been satisfactory in the last two years?—A. I think it is only fair to say that in the last two years my attention has been directed to matters other than banks, but I would say that there are a great many factors operating in the United States, other than the factors named, and you have to get at all the factors concerned, in order to arrive at a definite conclusion.

By Mr. Robinson:

Q. Can you say anything about the loan companies of Alberta?—A. I think, if I may say so, that the facts in regard to the actions of certain loan companies in Alberta, are fairly well known. They were dealt with at the last meetings of this Committee, and are on record. They have reference to the legislation referred to a few minutes ago.

Q. I thought it was on account of the Government issuing some telephone debentures, which would be considered a first mortgage?—A. It hardly seems to me to touch the original question at issue. It applies to a particular province.

Q. They cannot borrow from the banks on mortgages?—A. Quite so. Undoubtedly it has affected the situation. But it does not affect the whole question as dealt with in my memorandum.

The Committee then adjourned until Thursday, March 15, 1928, at 11 o'clock.

COMMITTEE ROOM, No. 429,
HOUSE OF COMMONS,
March 15, 1928.

The Select Standing Committee on Banking and Commerce met at 11 o'clock, A.M., the Chairman, Mr. F. W. Hay, presiding.

Albert E. Phipps, called and sworn.

The CHAIRMAN: Mr. Phipps, perhaps we ought to submit to you a series of questions, but it is open to you to go on as you please. You will find that there will be ample questions submitted to you later on. Would you prefer just to make a statement?

The WITNESS: Yes, I would, Mr. Chairman. I have one here which I will read:

In the beginning of organized banking in Canada over one hundred years ago, three features which have persisted up to the present characterized the system:

(1) The establishment of branches;
(2) Note issues against the bank's assets;
(3) No lending on mortgage of real estate.

All three were essential, if the growing country was to have adequate and continued banking services. The centres of population must supply banking capital for the outposts—hence branches; banks must have till money free of cost, if banking facilities were to be afforded in newly established communities—hence the note issue privilege; and there must be no lending on real estate because land speculation was rife and liquidating was essential and the antecedent experience in the United States of lending against land had brought finacial disaster and would soon have had a like result in Canada.

Other features have followed. Special forms of security, to facilitate the marketing of timber in the early days and of wheat, wood products and manufactures in these latter days, have been devised so that the system is an evolution expanding or changing from time to time to meet the actual conditions in the development of the country.

The whole system has been exhaustively examined by Parliament within the past five years and nothing has arisen since the last amendments were made which would seem to call for structural changes. In fact the system, it is submitted, is meeting the banking needs of the Country adequately.

BANK NOTE ISSUE PRIVILEGE

The bank note issue privilege has been mentioned. In some respects this has been from the standpoint of the national interest a very important feature of our present system and if abolished, certain results would inevitably follow. By way of preliminary it should be said that the Government notes, backed substantially by gold, are the main currency of the country—the backbone of our currency system. All adjustments of the trade and business of the country that go through the banks are settled in the Government's currency. If one bank, in the operation of

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the clearing house system, where virtually all commercial transactions in the Country are adjusted, owes another bank, and included in this obligation will be its own notes held by the creditor bank, the settlement is made in Dominion notes. Dominion notes in turn represent gold because they are convertible into gold. Thus it is a mistake to suppose that the currency of the banks, important in some respects as it is, is the controlling feature of our currency system. The Government's issue is the real and only legal tender in the form of note currency of this Country.

But there is a function of great importance to this country which the bank note issues perform. The banks have their own notes in the tills of every branch. They are not a liability there; it costs nothing in the way of interest charge to carry them. Depositors desiring cash are given the bank's own notes, and they also are the basis for moderate loans, though soon after the loan is made or the depositor makes a purchase with the notes he has received they have to be redeemed in Dominion notes in the clearing settlements. In many communities in this country, if the banks had to carry in their branches till money in Dominion notes or the notes of any central institution, for which the banks would have to pay cash, then these communities would of necessity not have banking facilities, for the business would be conducted at a loss. In other words, the local community could not support a branch bank if the interest on the unused cash in the bank's possession had to be paid out of the profits there received. It would therefore have a revolutionary effect in Canadian banking to take away the note issue privilege against paid-up capital, because many communities now receiving banking facilities would be deprived of these facilities and new communities which are constantly growing up, particularly in the Prairie Provinces, would for many years be without the banking facilities which they would otherwise have under the present system of note issue.

Finally, Canadian bank notes to-day have the hallmark of a genuine currency. The value of the bank note is unquestioned and with the protective features now in The Bank Act, it is inconceivable that any holder of it would ever sustain a loss.

Central Bank Proposal

The establishment of a central bank of rediscount, under the control of the Government, has been suggested. Anyone familiar with the development of our present system knows that there is to-day in Canada in effect a central bank of rediscount, with scarcely a dollar of additional cost and without any of the elaborate machinery which characterizes such institutions in other countries. Under the Finance Act the banks with the greatest ease can now obtain from the Treasury Board Dominion notes against securities, to furnish currency for the movement of the crops, and other natural products, or finished manufactures from the point of production to the consumer.

The banks have to pay interest to the Government on these advances. In consequence, the banks repay the Government the currency as fast as possible; just so soon as the particular operation for which the Dominion notes were borrowed is complete, the bank returns the notes to the Government. Thus the tendency to inflation is controlled, and the history of the operation of The Finance Act both before and since the Act was made a permanent part of the financial structure of the Country in 1923 shows that its operations have been kept within moderate and

legitimate bounds. Even before The Finance Act, our system, as distinguished from the banking system of the United States before the Federal Reserve Act, provided a flexible currency—that is to say the bank note issues could be enlarged within reasonable limits to meet seasonal requirements; and when these were taken care of the issue would automatically contract, but with the added Finance Act, now a permanent part of our monetary system, nothing in the way of legitimate trade or expansion can ever be hampered by a lack of currency.

The Commonwealth Bank of Australia

Citation has been made of a central banking institution, the Commonwealth Bank of Australia, and emphasis has been laid on the direct advantage it is to the State in the profits it turns over to the Treasury.

The Commonwealth Bank of Australia was established about the year 1912, legislation therefor being passed in the year 1911.

It is scarcely possible to make a banking comparison between Australia and Canada, owing to the great difference in conditions. The Commonwealth Bank, while authorized to carry on a general banking business, it should be said at the outset, does this to a limited extent only. The last published available statement of the Commonwealth Bank dated 30th June, 1927, shows total assets of £139,000,000 and of this great total approximately £79,000,000 were in Government and other fixed securities. The total amount of real banking business among its assets was £19,500,000 in the form of bills receivable, bills discounted, loans and advances, and other sums due to the bank. From this it will be apparent that the Commonwealth Bank is not a commercial institution but has been used chiefly as a means for supplying loans to the Government of the Commonwealth and various other governmental agencies.

Reference has been made to the profit to the State which the Commonwealth Bank brings. For the year ended 30th June, 1927, the profits from the banking business, apart from the note issue profit, have been declared at £580,000, the bulk of which was made through the taking in of deposits at a low rate of interest and investing in securities at a higher. One half of these profits went to the Reserve Fund of the bank; and the other half was contributed to the national sinking fund.

During the like period the sum of £1,136,000 was derived from the Note Issue Department, the Note Issue Department and the general business of the bank being kept entirely separate. Of this sum £852,000, or something over $4,000,000, went to the Commonwealth Treasury. These profits of the Note Issue Department were wholly derived from the annual dividends accruing from £25,000,000 of debentures and other securities which are held in that Department against the issues of the Commonwealth Bank's notes.

It will probably be a matter of surprise to many to know that Canada derived from its note issues and from the tax on circulation of bank note issues an advantage greater than $4,000,000 during the past year. The Government of this country has in fact received $63,500,000 for its note issues which sum has not been invested in securities as in Australia but has been used to meet current obligations of the Government from time to time. The Government in this way avoided the borrowing and payment of interest on this sum. Of this $63,500,000, $41,000,000 was received by the Government from the banks in exchange for its notes during the early part of the war period. The first of these free issues dates from Confederation as at the Union $2,400,000 or there-

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abouts of uncovered issues, the liability therefor being assumed by the Dominion, were outstanding. If the Government of Canada had taken the credits created in its favour in the banks in exchange for these issues and invested in securities as in the Australian case, it would be receiving for Consolidated Fund Account, the borrowing rate at the time these emissions were made being considered, at least $3,000,000 per year in interest. As it is, the Government of Canada has had the use, free of interest, of this sum. Its currency issues are nevertheless just as good as the Australian for its promise to pay is as good a security as the debentures which the Commonwealth Bank's Note Issue Department holds against its issues.

In addition to the $3,000,000 referred to, there is approximately $1,200,000 which the Government of Canada annually gets in the 1 per cent tax upon bank notes in circulation against capital, and the income derived from the issue of Government notes to the banks under the Finance Act, as well as the tax on excess circulation of the banks. It is submitted that the Government of Canada has directly and indirectly derived and is deriving from the note currency of the country advantages out of its own currency and the circulation privilege of the banks that compare favourably with those derived in recent years by the Commonwealth of Australia from its control of currency issues. In this connection it should be noted that the Commonwealth Bank is paid by the Government of Australia for many services such as are rendered by the banks of Canada to the Government of this country free of charge.

Unit Banks with Limited Capital

As a collateral to the Central Bank idea it has been suggested in some quarters that if a central bank were in operation and legislation were introduced permitting the establishment of banks with a minimum capitalization of $50,000, these institutions having the right and privilege of obtaining currency from the national central bank by deposit of securities and rediscounting, great advantage would result to agricultural interests. (See "Currency and Banking Reform" proposals by A. E. Darby, considered and approved by the Canadian Council of Agriculture a year or two ago.)

The record in recent years of small banks in the United States in agricultural communities is one of disaster. In the first place the banks with the small capitalization rarely, if ever, have securities which measure up to the rediscount requirements of the Federal Reserve System, so they cannot take advantage of the system. Between the years 1921 and 1926 inclusive, 2,687 State banks failed in the United States, the most of these in agricultural communities with conditions comparable to those in the Prairie Provinces. For example, there were

279 failures in North Dakota
236 failures in Kansas
212 failures in South Dakota
186 failures in Minnesota
145 failures in Missouri
130 failures in Montana.

These are the figures presented by the Economic Policy Commission of the American Bankers' Association and published in the November, 1927, issue of the journal of that association.

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Edmund Platt, Vice-Governor of the Federal Reserve Board, Washington, discussing in the Trust Companies Publication, June, 1925, this great volume of failures "in our agricultural states," says:—

> It seems to me that the remedy is clearly suggested by the evidence presented. We must have larger banks, banks large enough to afford good management and large enough to spread their risks over a variety of industries and over a considerable territory. The larger banks have a better chance to weather financial storms because they are able to secure, and generally do secure, good management, and also because they are not under the same temptation to put all their eggs in one basket. The large bank serves, as a rule, a greater variety of industries than a small bank and often spreads its loans so widely that it cannot be vitally affected by disaster to any one industry.
>
> *Branch Banking and Safeguard.*—If we must have larger banks in order to afford good management and to give the management a fair chance for success then we must either subject many people living in small communities, or in rather thinly settled agricultural communities to great inconveniences or we must provide them with banking accommodation through branches—not necessarily on any very large scale as in Canada—but on a scale large enough to serve the people adequately and safely.

The Government in the Lending Business

One suggestion has been put forward—that if Canada had a central banking system, strong commercial organizations might pledge their securities directly with the Government bank and receive Dominion notes with which to carry on operations without the intervention of any bank. The Wheat Pool has been instanced as one organization with which this might be done. If this privilege were granted to the Wheat Pool, surely it could not be denied to its rivals, the non-pool grain companies, which are equally worthy organizations, and if to these, why not to every kind of organization with supposed creditable financial standing? Are the people of Canada prepared for the risks incident to such a radical departure from currency control and safety, and for a form of banking not practised in any country, I believe, in the world to-day?

Let us examine the proposal: Under the present system the Government obtains the endorsement of the bank and has a first claim upon all of the borrowing bank's assets, in addition to the particular assets pledged. That makes the Government fully secure. The bank to-day takes the risk of lending. While the Wheat Pool has been prosperous in the few years it has been operating, agricultural pools on this continent have not had an unbroken record of financial success. It is believed that the people of this country are not willing to have the currency of the country involved in the risks and hazards attending the conduct and operation of any commercial or trading organization, or combination of these.

Control of Credit

Emphasis has been laid upon the supposed control of credit by bankers. In a limited sense bankers control credit. That is to say, the banker can and does grant or withhold credit according as the enterprise seeking credit in his opinion will be successful from the standpoint

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of the borrower or the reverse. The banker is primarily and mainly concerned about the safety of his advances and the certainty that the advances will be returned within a reasonable time with adequate interest. He is not thinking about the volume of credit in the country nor the effect which the granting or withholding of credit in the particular instance will have upon the price level of commodities in the country. The banker, too, when he judges that speculation in any of its varying forms is getting beyond the safety line, limits credit in that direction, not because he wishes to discriminate against any class but because he believes the bank's advances are imperilled.

It is proposed that the State should through some such agency as a central bank control credit, and thus frustrate the designs of evil-minded capitalists with banking control in their hands against weaker industries or commercial interests. I am convinced that there is a great fallacy in the assumption that there ever has been in Canada any improper control of banking credit for such purposes. Intimacy for a good many years with banking operations in this country has never brought to my attention the slightest suspicion that any capitalists or group of capitalists have in fact prevented or attempted to prevent legitimate enterprise from receiving a fair measure of banking credit. If such were the fact anywhere in Canadian banking operations every general manager in the country would be aware of it.

Why suggest legislation, therefore, for supposed evils which are really non-existent?

With regard to the control of banking credit and incidentally prices of commodities, a very eminent banker and statesman in the United States, Mr. Secretary Mellon, recently said:—

> Neither the Federal Reserve System nor any other system can control prices; while credit is one factor in influencing prices, it is neither the only factor nor the controlling one.

Governor Harding, for a number of years head of the Federal Reserve System in the United States, recently said in regard to a proposal that Congress should direct the Federal Reserve authorities to shape their policy so as to maintain the price level of commodities:—

> Do not understand me as being out of sympathy with the objects of the Bill which Representative Strong has introduced in the House. I have merely attempted to give some of my reasons for believing that the object desired cannot be accomplished by the means proposed.

For these reasons I repeat that the Canadian banking system is meeting the banking needs of the country adequately and well.

That, gentlemen, is the statement I have prepared.

By Hon. Mr. Stevens:

Q. Mr. Phipps, before you are questioned by members of the Committee who have prepared a series of questions, may I ask what interest is being paid to the Government on advances under the Finance Act?—A. It has varied from five to three and three-quarters per cent; at present it is three and three-quarters.

By Mr. Ladner:

Q. Mr. Phipps, there are one or two questions I wish to ask you. Some of us are interested in the possibility of the establishment of something in the nature

of a Federal Reserve Bank in Canada, or a central bank of rediscount under the Finance Act, and then working out something on the principles of the Federal Reserve banking system of the United States. In 1923, in the Banking and Commerce Committee, a proposal was put before that Committee by myself, and some of the functions of the Federal Reserve Bank, which would be applicable in Canada were outlined. It is on those functions that I wish to ask you certain questions, as briefly as I can. But, first, I want to get from you how you account for the variation in the number of banks. According to the record I have, in 1841 we had ten banks in Canada. To-day I believe we have eleven?—A. I think that is right.

Q. In 1867 we had twenty-two. In 1890 there were forty banks in Canada; quite a wide field of competition. In 1900 there were thirty-six banks. In 1910, twenty-eight; in 1922. or 1923, there were seventeen; and to-day there are eleven. How do you account for such an alteration in the banking operations of the country?—A. I would say that that is almost direct evidence that a regional bank does not serve the purposes of the country adequately.

Q. And in your opinion. is it desirable that we should have a smaller number of banks, and that a smaller number would be more useful?—A. I would not say a smaller number than there are at present; but I would say the present number of banks is much more capable of handling the business properly than the forty banks of a few years ago.

Q. Why do you limit the number to eleven?—A. I am not limiting the number.

Q. Why do you say the present number is sufficient?—A. I am not saying that it is more than sufficient.

Q. Will you state whether there is some reason for any particular number, or whether the banking service would be improved in a change of the number?—A. I think the banking system will adjust itself to the number of banks that is required, and that is what the system has been doing.

Q. Do you think there is any likelihood of there being a lesser number?—A. I do not know anything about that. You can judge the future as well as I can, Mr. Ladner.

Q. Do you think that the existence of a Federal Reserve Bank of rediscount, something after the fashion of the United States, would have a tendency to stabilize, or rather to strengthen, the smaller banks in Canada to-day?—A. No.

Q. You think it would have no effect?—A. No.

Q. Then, Mr. Phipps, how do you account for the fact that on the failure of the Home Bank, a very large transfer was made in deposits in the smaller banks over to the larger banks?—A. That is a merely temporary affair. A Federal Reserve Bank would not have stopped that.

Q. Would a Federal Reserve Bank strengthen the position of the smaller banks?—A. No. We have all the support we want under the Finance Act.

Q. To what extent is the Finance Act used?—A. To the extent that it is required.

Q. But I am told that that is very limited?—A. Very limited. The same would refer to a Federal Reserve Bank of rediscount.

Q. I am told that four out of the total number of banks in Canada control 70 per cent of the entire deposits of the Canadian public. Do you know about that?—A. I have not figured it out. It is approximately right, I should think. But, I would like to correct myself there. The larger banks draw a great many of their deposits from abroad. I do not know whether you have figured that.

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Q. Pardon me, I did not hear your answer?—A. The larger banks draw a considerable proportion of their deposits from abroad. I do not know whether you have taken that into consideration.

Q. How would that affect the consideration?—A. There would not be so large a proportion of the deposits in Canada.

Q. But would not they control a proportionate amount of the business?—A. You are confusing the business abroad with the business in Canada.

Q. No, but you say a large proportion of those deposits are deposits from abroad?—A. Yes. Have you made that distinction in your figures? I have not checked it up.

Q. No, I have not made that distinction. These are just total deposits. But, the point I am making is that, having received the deposits, they would not be any good to the bank unless it used them in the banking business, would they?—A. No.

Q. And therefore, they would, in that proportion be used in the business of the country?—A. No, in this country and abroad. The Royal Bank, for instance, has a very large business in Cuba and the West Indies, and they use their foreign deposits there.

Q. Would not these four control 70 per cent of the business?—A. I would not think so.

Q. Would you not say the four largest banks do about 70 per cent of the business in Canada?—A. No, I do not think so.

The CHAIRMAN: May I interrupt you there. We have Mr. Ross, Secretary of the Dominion Bankers' Association, also present. Perhaps if we do not get them to-day, these details might be given later by him.

WITNESS: Yes, we can give you these details.

By Mr. Ladner:

Q. Now, the liabilities to the public; I can preface my remarks with the suggestion that it indicates the activity of the business in the country?—A. Yes.

Q. Reading now from the Journals of the House of Commons of 1923, Vol. 60 at page 98, an exhibit giving the figures of liabilities to the public at different dates. At the end of the year, 1904, the total liabilities of all the banks were $587,000,000.

Q. In 1908, $1,814,000,000, in 1912 $1,292,000,000. I am leaving out the odd figures. In 1916, $1,716,000,000. In 1920, $2,835,000,000. That was the big year, of course. In 1920 there was great activity. Then in 1922, $2,347,000,000. Now, I see you have the *Gazette* record there?—A. Yes, for January.

Q. On the 31st of December, 1927, the total liabilities amounted to $3,217,000,000. Now, Mr. Phipps, that is the extent of the business that is practically being done. Now, if you take the paid-up capital of the banks, you find that in 1890 we had $60,000,000, and in 1900, $67,000,000, in 1910, $100,000,000, and in 1923, $123,000,000. I do not know what the reserve capital was. At the end of 1927, the paid-up capital is $122,764,000, which is about the same as 1923? A. Yes.

Q. And the reserve has increased at the same time to $133,566,000. Now, if you take the amount of capital which the banks had in their bank premises, which is locked up in their bank premises, and which they require in their business, I find that in 1890 this stood at $4,000,000, in 1900 at $6,500,000; in 1910, $25,000,000, in 1923, $70,000,000, plus $6,000,000 in other real estate. I know I am giving you a lot of figures, but the general trend will enable you to base your answer on my question. Now, the bank premises at the end of December, 1927, stood at $69,000,000. The point is this: If you can recall generally the

[Mr. Albert E. Phipps.]

tendency, with the great increase of liabilities to the public, reaching now to $3,217,000,000, the increase in the capital, which the bank uses, has been relatively very small during the course of the last forty years, and the number of banks has decreased. Now, supposing our country prospers and goes ahead during the next twenty years, as it has done in the last twenty years, and you see how phenomenal that increase is—there is an increase in liabilities to the public from $800,000,000 to $3,200,000,000, or four times—in your judgment as an experienced man, do you think the existing machinery of the banks, without such an institution as a Federal Reserve Bank, is sufficient to take care of that business in the future?—A. If you will leave the assistance of the Federal Reserve system out of that question, I will be better able to answer it.

Q. Leave that out, then?—A. I think the banking capital would prove sufficient, or it would necessarily be expanded. I understand that the capital of the English banks at the present time has a much lower ratio to their liabilities to the public than the Canadian has. I would not say that we will not have to increase our capital if the business increases four-fold, but the fact is that in the last four-fold increase, it has not been necessary.

Q. Do you not think that in the event of a further increase in business, such as I have indicated here, it is desirable that the capital should be increased? —A. I won't say that.

Q. Do you think the Finance Act, with the advantages which it now provides to the banks could or would be used more extensively in the future with an increase of business?—A. Well, as I said before, you can judge the future as well as I can, Mr. Ladner, but personally, I do not think it would be used very much more.

Q. Basing our prognostication of the development in the future, upon the actuality of the past, that is the only indication you have?—A. I was just thinking for the moment that although the business of the United States is expanding very greatly, the use that the banks are making of the Federal Reserve Bank as a means of rediscount, is getting less.

Q. But that is due to the accumulation of wealth and capital is it not?—A. I do not know what it is due to. If the situation is the same as you appear to be describing to me, yet the use of the Federal Reserve Bank is getting less.

Hon. Mr. STEVENS: They have got used to the toy.

WITNESS: They have got used to the toy, and they do not need it so much.

By Mr. Ladner:

Q. So far as that is concerned, you would not say that the Federal Reserve Bank of the United States has not been of enormous assistance to the citizens of the country?—A. I submit that the conditions are entirely different.

Q. It has been of use?—A. It has, undoubtedly.

Q. And the necessity in the United States is the same now as before?—A. So far as their system is concerned, yes.

By Mr. Woodsworth:

Q. So far as the United States is concerned, it is no toy over there, is it? —A. No, the use of it for rediscounting purposes is more or less of a toy, perhaps.

By Mr. Ladner:

Q. The banks in Canada do use the Government, by virtue of the Finance Act, as a bank of rediscount, do they not?—A. Yes.

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Q. Now, is that Finance Act necessary? Could that be eliminated? Would it be advantageous to the country to wipe it out?—A. No, I do not think so. I think it is here to stay.

Q. Why is it necessary?—A. As a safeguard.

Q. It can act as a rediscount to the banks?—A. Exactly.

Q. And it is advantageous in that way?—A. Absolutely.

Q. The Act does fill that need which the banks of the country may require; if we had a great expansion in the prosperity of the country—as my good friend Mr. Robb indicates we are about to have—

Hon. Mr. Robb: Oh, we have.

By Mr. Ladner:

Q. Now, this is the end of my question, as I do not want to monopolize the attention of the Committee; I propose to file a very short memorandum giving the functions of a proposed Federal Reserve Bank of Canada. I will file it in order that subsequent witnesses may be questioned upon the lines of these principles. I will just read these clauses to the Committee, as they are very short.

EXHIBIT NO. 1

Functions of Proposed Federal Reserve Bank of Canada

The Federal Reserve Bank of Canada should exercise the following functions:—

(*a*) To act as a bank of re-discount dealing only with banks;

(*b*) To have the right of open market operations in much the same way as is now done by the Federal Reserve Bank of the United States and for the same purposes;

(*c*) To act as a credit agent for banks in international banking in order to facilitate trade and commerce between Canada and other parts of the world, on much the same principle as the Bank of England;

(*d*) To function as the Government now does with respect to all Dominion Note Issues reserving however, power of the Finance Department to check over and make certain of the proper securities being held for such issue. In addition to the Gold security to the Federal Reserve Notes, these notes also to be backed as they are now by the Dominion Government thus giving complete stability as far as note issue is concerned;

(*e*) To act as the bankers of fiscal agents of the Government. In this way the Government has the power and united strength of all the banking institutions of the country in times of crisis and the banks have a far better opportunity as members of the Federal Reserve Bank in sharing in business of the Government. It does not seem fair that one bank should monopolize the business of the Government and to a large extent, as a private institution dominate the financial structure of Canada;

(*f*) To have no greater net profits than sufficient to pay operating expenses and six per cent on the capital investment. If there are any other profits these are to go to the Government for the benefit of the people of Canada and also within reason to

restrain banks, through its branches, in remote portions of the country from charging unreasonably high rates of interest. Such restraint could be practised by the Federal Reserve Bank loaning money (under its open market privileges) direct to the people at a low rate of interest;

(*g*) To act as a disciplinary body for banks which might be disposed to engage in questionable undertakings on a large scale or depart from the usual banking practices so as to endanger the deposits of the general public and the shareholders of the bank. The Federal Board to have the necessary powers through committees to investigate the member banks, their business operations, their assets and liabilities, with a view of protecting the public;

(*h*) To exercise, through its boards of directors, inspection in a general way for unusual financial operations of the member and other banks;

(*i*) To carry out the duties, generally speaking, such as are now performed by the Treasury Board and the trustees of the gold reserve and the Department of Finance with respect to note issue, pledge of securities and banking operations under the Finance Act of 1914 and all other banking functions operated by the Department of Finance, with the exception of such supervision and control by the Government for the Federal Reserve Bank as circumstances may warrant to protect the public interest in connection with those matters.

Now, Mr. Phipps, have we any system of handing over market operations as the United States does?—A. I do not get the drift of your question.

Q. In the States, if there is a restricted line of credit, and the rate of interest goes up too high, it is only on those occasions that the Federal Reserve Bank steps in, in the interest of the public, to control the rate of interest, and provide the funds. You know that?—A. Yes.

Q. Have you any such provisions in Canada under our Canadian Banking system?—A. We do not require them. Our banks are the same bank right across the country.

Q. But supposing there was only one bank. In parts of Canada, there are certain banks in certain localities, and perhaps the rate of interest goes up? Or do they?—A. Very little. We do not require that.

Q. You think a particular bank, of its own volition, would not put up a high rate of interest?—A. Precisely.

The CHAIRMAN: I gather that there is no limit to which they can carry it, if they so desire.

By Mr. Ladner:

Q. If they want to, they could put on any charge they could get?—A. By reason of the Bank Act they cannot recover a rate of interest in excess of seven per cent.

Q. I agree with you that our banks do not generally do it?—A. No.

Q. That is a matter of good business. Referring to the memorandum which I have filed, in the United States, the Federal Reserve Bank acts as a fiscal agent of the Government, does it not?—A. Yes, I believe so.

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Q. How is that done here?—A. The Bank of Montreal acts largely as a Government agent, but all the banks act as agents of the Government. They collect the revenue from the customs and so on, and remit it to Ottawa free of charge.

Mr. LADNER: That is all I wish to ask, Mr. Chairman.

By the Chairman:

Q. Mr. Phipps, under the Treasury Act, is it seasonable borrowings that you may take from the Government?—A. You may take it at any time. You have to state the purpose to the Chairman of the Board.

By Sir George Perley:

Q. Do I understand Mr. Phipps to say that he feels that the present arrangements under the Finance Act are sufficient? Does the Finance Act here work out satisfactorily for the provision of actual credit when required just as well as the Federal Reserve system does in the United States?—A. Just as well as any system in the world, Sir George.

By the Chairman:

Q. The Bankers' Association is an association of chartered banks in Canada that dovetails in more or less with the Government, with their charters, of necessity. May I ask them, is it compulsory that a chartered bank of Canada shall be a member of the Canadian Bankers' Association?—A. Yes. By law, they are members.

Q. Can they withdraw?—A. I think not.

Q. Can they withdraw?—A. I think not. By the Act itself, they are made members; every chartered bank is made a member.

Q. Then I suppose that your Bankers' Association,—you are a member of the Association,—between your bank and the other chartered banks there is no interchange of credits with customers at all as to whether you are lending to any one—there would be no reason, if I borrow from bank "A" that bank "B" would know?—A. Not of necessity, unless you put it in your statement.

Q. But if I did not, there is no knowledge of interchange of credit?—A. Oh, no.

Q. Then, if one of your directors wants to borrow for his own purposes, he sits without the Board; I understand that is usual?—A. That is the law.

Q. Now, suppose a competitor of his, engaged in merchandising and manufacturing wishes to borrow, would it be quite within his right to sit on the Board to pass credits to a competitor of his?—A. It is within his right, but in practice in our bank—I cannot speak for other banks—it is not done. We have a case in point where one of our directors has a competitor whose business comes up for a line of credit. By direction, that director is told that that business is coming up on a certain day, and he absents himself from the Board.

Q. But that is not under a by-law?—A. No, the director has a right to know, if he wants to.

Q. You have no power to begin a loan under a chattel mortgage?—A. No. Except on Western farmers' livestock.

Q. That would be under Section 88 of the Bank Act?—A. Yes, Section 88.

Q. In your opinion would it be helpful in making loans if you were empowered to grant credits on first a chattel mortgage, and then on mortgages? —A. No, I do not think so.

Q. A loan having once been made, you may take these securities?—A. Yes.

Q. But on an initial loan, you are not able to do it under your charter?—A. No.

Q. Would it be helpful to Canadian banks if that were permitted—A. No.

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By Mr. Woodsworth:

Q. Mr. Chairman, there are a few questions I would like to ask. Under the Finance Act, what classes of securities are usually deposited?—A. You will have to ask the Treasury Board that. I know what securities may be deposited, but you will have to ask the Treasury what are deposited. We have not borrowed, but we keep securities put up so that we could draw, as a matter of protection, and we put up Dominion of Canada Government Bonds.

Q. You do not know what check there is on the value of such securities?—

Q. What determines the rate?—A. The Treasury Board.

Q. Perhaps we had better get that from the Treasury Board?—A. Yes.

Q. In the case of advances, what interest is paid?—A. To the Treasury Board?

Q. Yes.—A. Three and three-quarters per cent at present.

Q. That varies?—A. It has varied from five per cent to three and three-quarters, in my recollection.

Q. What determines the rate?—A. The Treasury Board.

Q. Are you aware what makes the variation in the rate from time to time?—A. I have never been at the Treasury Board, and I have never asked for the variations.

Q. What would be the effect of the variation in the rate?—A. It should make credit easier, if it goes down, or more difficult if it goes up.

Q. Is that an effective control over credit?—A. It could be, Mr. Woodsworth. But, under the circumstances there has not been that nature or that kind of control required in Canada.

Q. You think it would be possible to make that rate of discount an effective control?—A. Absolutely.

Q. In the advances which are made, in what denominations are the notes issued?—A. As I say, we have never borrowed, but I know they are not issued in denominations of less than a thousand, and probably $50,000, to a greater extent.

Q. Are there no smaller issues than that?—A. Not unless there is change required.

Q. Those issues do not go actually into circulation?—A. No. May I go on to say, Mr. Woodsworth, as to that: they enable the banks to circulate their own notes by placing those in the central gold reserve. The smaller reach circulation.

Q. You were speaking about note issue privileges, and you said the note issues were backed by gold?—A. The Dominion note issues?

Q. Yes, to what exent?—A. It is about 50 per cent, or 52; or more than that, 57 I think.

Q. Of what practical value is that?—A. A sense of security. It is a real security and it gives confidence.

Q. It is largely psychological?—A. No, it has got to be there, or the sense of security would not be there.

Q. What proportion of loans is given as a matter of fact in bank notes?—A. I do not think anybody could answer that question, Mr. Woodsworth. I cannot.

Q. I ask it because you say, in referring to the necessity of a branch banking system, that it would be impossible for a local bank to give adequate facilities if it were not connected with other and larger banks?—A. I would say that in the branches of that character, 50 per cent at least of the loans to the farmers are handed out in notes.

Q. Is there any record of that?—A. No; I am going by my experience in those branches.

[Mr. Albert E. Phipps.]

Q. Is there any record from which we could obtain that information?—A. No, there is no record kept. A farmer comes in and borrows money; he puts it to his credit or takes it in cash, and I would say in 50 per cent he takes it in cash. I am basing that on my actual experience in branches.

Q. You referred to the banks paying interest to the Government for advances, and you said that the tendency to inflation was thus controlled?—A. Yes.

Q. In what way?—A. The interest which is paid for advances under the Finance Act is high enough to make that money the most expensive money that a bank uses, so that the margin of profit on that money is the smallest margin that we get and so we naturally keep those advances as low as possible.

Q. Your own bank has not found it necessary to go to the Government or to the Board for that purpose?—A. No.

Q. Are you not free then, as a matter of fact, to issue credit to a very considerable extent? How does the Government or the Treasury Board in any sense control your issue of credit?—A. When we issue credit, we have to pay the money. If we have not got it, we have to go to the Federal Finance Board and get it.

Q. I cannot quite see how any tendency to inflation would be controlled?—A. Because we would not want to pay that amount of interest for a borrowing.

Q. But you could continue to extend your credits, and what you could do as a bank, other banks could do?—A. That is a matter of judgment. It is a hypothetical question you are asking.

Q. Ah, yes, but it was not a hypothetical situation a few years ago, when, during the war, there was a very considerable amount of inflation?—A. Yes, but the banks were not responsible for the inflation.

Q. Who was responsible?—A. I would say, the merchants, and the manufacturers, and the people who wanted to stock up on goods and did not care what they paid for them.

Q. Well, but the banks are surely responsible for the expansion of that credit to the people. Would they go on extending, knowing that it would bring financial disaster?—A. No. They did not know that it would bring financial disaster, and it did not; but they would go on, they have got to go on following the price of goods up to enable their customers to pay for them, within reason.

Q. Then, this was not a hypothetical case; as a matter of fact, the banks did extend credits, and the result was that inflation came about?—A. No, it was not the result of the banks extending credits. Get me very clearly there. It was the result of the inflation of prices by competition among people for the good that they thought they were not going to get, in the post-war period. And the banks had, of necessity, to support their customers, to an extent. There was no one lost more heavily in the deflation than the banks, and no one was more sure that it was coming.

Q. I was speaking for the moment about the inflation. I said the banks did extend credit at that time?—A. They certainly did.

Q. And the result of such an extension of credit was, in other words, inflation?—A. I think the other way on.

Q. The point was that there was no effective control over the banks, and we did have a period of inflation?

Hon. Mr. STEVENS: Inflation of what, Mr. Woodsworth?

Mr. WOODSWORTH: Inflation of the dollar.

Hon. Mr. STEVENS: Inflation of business.

Mr. WOODSWORTH: Yes.

Hon. Mr. STEVENS: That is depreciation of the value of the dollar.

[Mr. Albert E. Phipps.]

The CHAIRMAN: Some one said it was "keeping up with the Joneses," the neighbours.

By Mr. Woodsworth:

Q. I am speaking of a condition and I would like to get at where the responsibility lies in that regard, not so much reflecting on the past, but looking to the future?—A. I understand that. These periods will come and go in any country in the world. It is wrong to say that the banks are responsible.

Q. But they gave the credit?—A. They were forced to.

Q. And if they had not given the credit, there would not have been inflation?—A. Oh, yes, there would. The credit would have been got somewhere else. You would have had a Federal Reserve Bank here, and it would have given the credit.

Q. Never mind that; you are giving a hypothetical case there. I am keeping it to practical affairs. We had no Federal Reserve Bank, and we had the banks and the credit came through the banks. I am right in that?—A. Yes.

Q. And there was inflation?—A. If you assume that the granting of credit was responsible for the inflation, you are right; but I do not agree with you there.

Q. Will you tell me what was responsible for the inflation?—A. The imaginary shortage of goods, and the knowledge that people wanted to buy, and were willing to pay high prices for them. And the banks had to see that business went on.

Q. If I understand you, then you had a little bit to do with the corresponding process of deflation? You said a moment ago that the banks had to tighten up?—A. No, I did not say that. They had to take losses. I did not say "had to tighten up."

Q. Were they at all responsible for the corresponding process of deflation?—A. Not at all.

Q. The banks then, are helpless in that matter?—A. Absolutely. In that particular instance they were helpless.

Q. You said, in extending credit, or withholding it, that the banks were not thinking of the effect of their action; that is the economic effect of their action?—A. I said that?

Q. Your words were that the banks were not thinking of the effect?—A. Oh, in controlling, yes. What I mean by that is that we are practical people; we meet the situation from day to day; we do not sit down and think how many millions of credit Canada should have.

Q. Do you not think that some one should be thinking about the effect?—A. Well, some people seem to be.

Q. Do you not think some responsible agency should be thinking of the effects and that we should not go it blind?—A. I do not think we do. I do not see what you want, Mr. Woodsworth. Mr. Ross reminds me that I referred to the banks of the United States. I say here:—

> "Neither the Federal Reserve System nor any other system can control prices; while credit is one factor in influencing prices, it is neither the only factor nor the controlling one."

That is Mr. Secretary Mellon. That is the best evidence I can give.

By Mr. Ladner:

Q. The Federal Reserve Bank certainly can, and so does the Bank of England, control credit, by raising the rate of interest?—A. It does not control prices.

Q. But if you control the credit and the extension of credit, you certainly control the inflation and possibilities of a boom. Is not that one of the methods

and chief functions of the Federal Reserve Bank or of the Bank of England?—A. It can control credit to that extent, but that is not applicable to what Mr. Woodsworth is talking about at all.

Q. If Mr. Woodsworth will pardon my interruption, because this is really the centre and chief reason why I am interested in the Federal Reserve Bank system; I think there is a responsibility on the part of the Government to the public, to control conditions where they can do it on sound grounds. Take the Federal Reserve Bank system in the United States as it exists now: Supposing there is a boom starting in; now, the Federal Reserve Board is controlled by the Government of the United States, and to that extent the government assumes a certain responsibility to the country. If in sound economics, they see a boom coming, and think that credit should be curbed, the Board can curb it, can they not?—A. Oh, yes.

Q. Is not that in the public interest?—A. It might be, yes.

Q. Would it not be in the interest of the business man?—A. It might be.

Q. Or of the banks themselves?—A. It might be.

Q. Can the banks of this country control such a situation?—A. They can and do, I think, effectively.

Q. But you just told Mr. Woodsworth that they did not?—A. But you are taking a post-war condition, and that is not fair.

Q. It would not matter what the conditions were, whether they had the special impetus or a war demand, and excitement, or whether it was just a normal boom, such as we have in mining at the present time?—A. Neither the Federal Bank nor the Bank of England avoided those conditions in the United States or England at that time. They were controlled here to a large extent, and if they were not controlled, they would have gone further.

Q. But there is no such agency here as in the United States, and in England to control the over-extension of credit, we will say?—A. Yes, there is.

Q. What is it?—A. The Finance Act.

Q. No, that only operates when you come to them for money?—A. The Federal Reserve Bank only controls in that way.

Mr. Irvine: No, the Federal Reserve Bank operates to limit credit.

By Mr. Ladner:

Q. So far as the general public is concerned, and let us say to assist our Canadian banks to control a boom condition, there is something absent in this country which does exist in the Federal Reserve Bank. Would you not agree with me in that?—A. No, I do not agree with you in that. We first have the banks themselves, who can control the rate of credit. Then we have the Finance Act which can control the banks.

Q. But you just told Mr. Woodsworth that the banks themselves did not and could not control such a situation; that the controlling factor rested in the business man himself who was in turn impelled by the idea that the people wanted the goods. Was not that the reason you gave?—A. They could have controlled the amount of credit, Mr. Ladner, but they did not.

Q. Who did not?—A. The banks did not.

Q. Why did they not?—A. There are two uses of the words " could not ". One is that they could not properly control the amount of credit; and the other one, that it is impossible for them to do it. It is quite possible for them to do it.

Q. Do the Canadian banks act in unanimity?—A. No.

Q. So as to enable them to control such a situation?—A. No.

Q. How could they do it if they are competitive without collaboration, so as to control?—A. They could do it, one at a time.

[Mr. Albert E. Phipps.]

By Mr. Woodsworth:

Q. Just to finish this particular point I should like to read a paragraph that will perhaps bring my idea out. I read from the last speech of Mr. McKenna whom I quoted in the House. This is sent out by Mr. Marvin, of the Royal Bank, in his March letter:—

> It must be remembered that, whether we are on a gold or any other standard, the direction in which the price level moves is immediately determined by the volume of money, as modified by its rate of turnover, in relation to the volume of business. If the supplies of money increase beyond the requirements of business, prices tend to rise; if on the other hand, the supplies of money are inadequate, prices fall. The relation between money supplies, and business requirements, viewed in its effect upon the price level, should then be the first care of the central banking authority, and we find on an examination of American statistics for recent years that movements in the price level upwards or downwards have never been allowed to proceed far. We must therefore, conclude that the monetary authorities have met with a high degree of success in the formulation and execution of their policy. This they have done under conditions of great difficulty, brought about by gold movements of unprecedented magnitude.

Now, I should like to ask whether, if that movement is being controlled by the mechanism that has been set up there, and if it was not controlled here in Canada, whether it would not be wise that we should have some agency that could control it?—A. Yes. I say we have it in the Finance Act. You were asking who was responsible for inflation. There was an inflation of Dominion Government notes during the war of fifty million. They had to face the same situation as we did. The money was required, and had to be put out. The British Government, Mr. Ross reminds me, received $50,000,000 in Dominion notes, for which nothing was given; inflation of the purest kind. Forty million was issued by the Government.

Q. Would you give the proportion that that fifty million bears to the entire amount?—A. There was an extension of 30 per cent by the Government, in Dominion notes that were issued without cover.

Q. Then, on the other hand, what proportion does that bank note issue, that note issue of the Dominion Government, bear to the entire volume of business in the country at that time?—A. The point would be, what relation does that bear to the entire volume of Dominion notes that were previously out.

Hon. Mr. Stevens: Be fair in that question. The ratio of expansion is the comparison between the amount of forty or fifty million, and the total issue of Dominion notes.

Mr. Woodsworth: No, Mr. Stevens, that is not the point I am getting at. The point is that the banks extended credits for manufacturing and industrial purposes of all kinds, which answered the purpose of money, and would in reality mean an extension of the volume of money. It may be true that the Dominion did extend its Dominion notes, but what I was trying to get at is the proportion that existed between the added volume of Dominion notes and the added volume of credit facilities throughout the country.

The Witness: That might be figured out for you some time later, but it is a very difficult problem; you would have to fix dates and so on.

By the Chairman:

Q. Would it be a dangerous proceeding to allow the control of credit in any country such as the United States, by a board? Supposing the Treasury Board said, "we are going to put a stop to the lending of money because we

[Mr. Albert E. Phipps.]

believe it is a time for putting on the brakes;" would any Finance Minister take that responsibility so far as this country is concerned?—A. I do not think so.

Hon. Mr. ROBB: Is any one advocating that?

The WITNESS: I do not think the Government of the day would do that, and that is the reason why the directors of the Federal Board are appointed by the President.

By Mr. Irvine:

Q. They did take that responsibility. Have you examined the lines of deflation in Canada at the close of the war, from the peak to the bottom, and have you examined them in the United States to see the relation between the two?—A. No, I have not.

Q. If you do, you will find that Canada dropped, like that, to the bottom of the bank, and the United States has not got to the bottom yet, and they maintain the credit of the country to a large degree simply by a stringent control?—A. I think what I have said before is the fact. Neither the Federal Reserve System, nor any Federal system can control prices. There must be a head of it and it is only his opinion.

Q. I think we are foolish to try to get a representative of the associated banks to agree to a change which he regards as not being necessary, and he declares that there is not only no need for any control but that there is no possibility of it. Consequently, we do not look to the Bankers' Association for any evidence in this matter, and you will surely not feel slighted if we look elsewhere to find the control which we believe is necessary, and which we believe must come.

Hon. Mr. ROBB: Well, Mr. Irvine, if I understand Mr. Woodsworth aright, he believes that the banks could have prevented inflation at that period when there was inflation, because of the high price of goods, and the demand for goods. Not only the actual producers, the farmers, but the industrials were running over-time to produce those goods. If Mr. Woodsworth is right in his argument, the banks could have prevented the increase in the wages of labour which occurred at that time. Every one will admit that labour jumped from about two dollars per day to seven dollars per day. Is it the argument here that the banks should keep down the price of labour?

Mr. IRVINE: Oh, that is not the point, sir.

Hon. Mr. ROBB: Is not that a fair inference?

Mr. IRVINE: We are not talking about the price of labour, but about the price of a dollar, and how much a dollar will buy. It does not matter to labour how many dollars in units he gets if it cannot purchase the goods.

Hon. Mr. ROBB: The price of goods is affected by the price of labour.

Mr. IRVINE: What is meant by inflation is, if you have got more money on the market than you have got goods, and through the destructive effect of war, when you had inflated credit to produce the goods, you destroyed the goods, and left your credit floating, you could not help having inflation. I am not blaming the banks for that. There was no machinery at that time to do other than was done. There was no one that thought about anything else, and there is no use of washing that old linen. The point is, can we look forward to any possible change in the future in the relation between the amount of money that is let loose by the credit interests, and the price of the dollar? Is there a possibility of controlling it? That is the point. The Bankers' Association say there is no possibility of controlling anything with regard to prices.

WITNESS: Mr. Irvine, I did not say there was no possibility.

[Mr. Albert E. Phipps.]

By Mr. Irvine:

Q. You quoted Mr. Mellon on that?—A. I said there was no possibility of controlling that particular situation that arose out of the war.

Q. Well, we cannot control that now, and if that is what you mean, I agree with you heartily. But, I understood you to mean by that quotation that the problem itself was unsolveable. I think you have said to-day that these periods recur and recur, which is true, but why should we not try to stop them recurring? The point is to try to find out whether there is any way of stopping that recurrence, not by any fantastic way of financing, but by an intelligent way of doing it. We think the Bankers' Association might do it, and if they will help us, that is all we are asking; but if they say it cannot be done, then we will have to find someone who can do it.

By Mr. Spencer:

Q. I have a few questions I would like to ask the witness, Mr. Chairman. Mr. Phipps, I understand you are the General Manager of the Imperial Bank of Canada?—A. Yes.

Q. And President of the Bankers' Association?—A. Yes.

Hon. Mr. STEVENS: We cannot hear you Mr. Spencer.

By Mr. Spencer:

Q. I take it also, Mr. Phipps, you are an economist?—A. Well, in a certain sense, I am an economist. I am a practical banker, or I try to be. That is all I would say. I have not made a study of economics.

Q. I ask that, because once we had a banker here who said he was "a practical banker, and not an economist?"—A. Well, I would be in that class.

Q. I do not want to overlap what has been asked, but I have a few questions I have put down here, and I would like to ask them in order. You have before you, I believe, a balance sheet of the Treasury Board?—A. Yes, for January.

Q. What date is that?—A. January, 1928.

Q. The 28th of January?—A. No, the 31st of January, 1928.

Q. Will you tell me what amount of savings deposits the banks held at that time?—A. In Canada?

Q. Yes?—A. $1,466,000,000 in round figures. That is deposits payable after notice.

Q. What is the nature of these deposits?—A. They are various. They are the savings of the people, from capital to labour investment; accumulated funds of various kinds put aside at interest, for special purposes at future times.

Q. What interest is paid on those?—A. Three per cent.

Q. Are these deposits payable in gold?—A. They are payable in legal tender; that is, Dominion notes or gold.

Q. Either Dominion notes or gold. If so, could they be paid if they were demanded?—A. Do you mean, if they were all asked for at the same minute?

Q. Yes?—A. You know the answer to that as well as I do.

Hon. Mr. STEVENS: I think, Mr. Chairman,—if Mr. Spencer will permit me—there is a danger of such a question being wholly misunderstood by the public, and causing a situation that is not warranted. Any one who knows the A, B, C of banking knows that neither this country nor any other could meet all its note obligations if they were asked for at once. We know equally well that it is an utterly absurd position to even think of it, but there are masses of people, tens of thousands, who, if they were told that fact, their confidence in the country's banking system would be undermined at once, needlessly, senselessly, and I think, wantonly.

Mr. SPENCER: If I may be allowed to go on, I think this information is wanted.

Hon. Mr. STEVENS: No one wants this information. You have got it there every month.

Mr. SPENCER: Excuse me, I am asking this question.

Hon. Mr. STEVENS: I object to a question like that being allowed to go out, by a responsible Committee of Parliament. It is obviously not in the public interest.

Mr. SPENCER: It is in the interest of the people of Canada that they should be informed on all these subjects of public interest.

Hon. Mr. STEVENS: The question is based on absolutely a false premise.

By Mr. Spencer:

Q. Any one knows that this country might not be called on for such a payment, but what percentage could be met in gold or Dominion notes?—A. Do you mean if they were all called for at once?

Q. Yes.—A. I refuse to answer that line of questioning, and that is all there is about it. I do not think it is a square deal.

Hon. Mr. ROBB: Are you basing your question on the supposition that there might be a run on all the banks of Canada at the same time?

Mr. SPENCER: No.

Hon. Mr. ROBB: I object to such a line of questioning.

Mr. SPENCER: If the banking institutions will not stand the light of day, it is time we knew it.

Hon. Mr. STEVENS: That is not a fair way of putting it.

Mr. SPENCER: I have the President of the Bankers' Association saying he refuses to answer a question about the banking system.

Hon. Mr. STEVENS: There is an answer to it, and that is that we could probably pay double the ratio that they can pay in England, and that ought to be safe enough for any one.

By Mr. Spencer:

Q. Mr. Chairman, I am submitting questions to the witness. What percentage of gold is carried in proportion to these deposits?—A. The banks are not required to carry gold. They do carry it, as a matter of fact, but they are not required to carry it.

Q. What do they carry instead?—A. Dominion Government notes and other credits.

Q. But you say they are not required to carry any. What amount do they carry?—A. It is on the return for you to see, sir.

Q. Could you give me that?

Hon. Mr. ROBB: But, Mr. Spencer, when these savings are put in the bank, they are used; they are put out in loans for the benefit of the business of the country. Some of them are put out in your own part of the country, and you yourself have asked me to keep banks in your part of the country so that the people in your constituency should be served. Are you saying now that the people should not be served with loans from that source.

Mr. SPENCER: No.

WITNESS: There were 48.8 million in Canada in gold, and 18.7 million held abroad.

By Mr. Spencer:

Q. Do the banks loan on interest the deposits payable after notice?—A. We lend the funds of the bank. As soon as the money is paid in to the bank, it is merged. We do not know whether monies are the funds of the bank or savings deposits.

[Mr. Albert E. Phipps.]

Q. You do not keep them separate?—A. No.

By the Chairman:

Q. Your monthly report shows what is on deposit?—A. Yes. We do not invest each one separately.

By Mr. Spencer:

Q. Do the banks lend monies other than the savings deposits?—A. They lend any of the funds of the bank, they are merged.

Q. How do you create other deposits than savings?—A. Any amounts deposited are put in; every day the Government deposits with us in a sense. We do not call them savings deposits.

Q. How much money had the banks of Canada on the balance sheet you have before you on that date, the 31st of January?—A. I do not think I should be asked that question. Money from deposits do you mean?

Q. On current account and savings?—A. Deposits?

Q. What money available for loans?—A. We had a lot more than that. Do you mean after deducting the loans already made?

Q. Yes?—A. I would have to take some time to figure that out. It would take some time.

Q. Give it to us roughly, in millions?—A. I do not know that I can do that. Whatever they wanted to loan, they would, probably, Mr. Spencer, have at least fifty per cent of their total assets, which are given at about three billions.

Q. Is there a limit to the money they can loan?—A. Yes, as their common sense dictates and good banking practice. I can only speak for our own Bank Mr. Spencer. We would lend on commercial loans about 45 to 50 per cent of our funds and we would think we were getting a comfortable margin of safety.

Q. The same answer would be given me if I asked who regulates it?—A. Yes, good banking practice and the management of the bank.

Q. What relationship is there between the amount of savings deposits and the loans made by the banks?—A. You mean the percentage?

Q. What relationship, what ratio?—A. I would have to take a pencil and figure that out. We would have to take time to do that. There are half a dozen different varieties and loans of every kind.

By Mr. Woodsworth:

Q. Is there any immediate relationship between the savings deposits and the amounts loaned?—A None whatever. What I understand Mr. Spencer is getting at is this: He wants to know how we invest our savings deposits. I say we merge our funds.

By Mr. Spencer:

Q. There are those who claim that they only loan money on savings deposits; you do not agree with that?—A. Not at all.

Q. Can a bank change an active liability such as a bank note that is payable to bearer to a liability payable after notice?—A. I do not understand the question.

Q. I will give it to you a little more slowly. Can a bank change an active liability, such as a bank bill that is payable to bearer, to a liability payable after notice?—A. What you are trying to catch me on is this——

Q. I am not trying to catch you on anything?—A. You want to know, if a man comes in with a $5 Imperial Bank bill, can we change it to a liability after notice?

Q. Yes?—A. Certainly. Anybody can.

Q. What is the percentage of so-called cheque money as compared with bills and coin?—A. I would have to look that up.

[Mr. Albert E. Phipps.]

Q. Sir Edmund Walker said in 1923 that the figure was about 4 per cent of notes and coin?—A. I have heard that figure mentioned.

Q. Do you think that is about right?—A. No. I think there would be a little more cheques now than there were. Cheques are getting a little more general.

Q. Is it a fact that each fresh issue of bills or notes enables a Bank to make further loans drawable by cheque?—A. You mean, if we add to our circulation, it would enable us to make more loans?

Q. Yes?—A. It would.

By Sir George Perley:

Q. If they are used?—A. If they are used.

Q. They go to the public, and it is not the mere issuing of them?—A. To elaborate that, under present conditions, in order to issue those notes, we have to give our good friend Mr. Robb dollar for dollar for them.

Hon. Mr. STEVENS: They are not allowed to issue notes recklessly.

Mr. SPENCER: I know the way it is done, Mr. Stevens.

By Mr. Spencer:

Q. In getting Dominion notes from the Treasury Board, you can place those in the Central Gold Reserve in lieu of gold?—A. Then we can issue notes.

Q. You can then issue your own notes against them?—A. Yes.

Q. I would like to ask a few questions in regard to savings deposits. What security has a depositor, in a Canadian bank?—A. He has the bank.

Q. I beg your pardon?—A. He has the bank.

Q. How do you mean, he has the bank?—A. The assets of the bank. He is a creditor of the bank.

Q. Is there a guarantee behind the deposit, either a Government or bank guarantee?—A. None whatever.

Q. In the case of a bank failure, are not the calls on the assets of the bank as follows: (1) all notes of the private banks?—A. Notes in circulation.

Q. (2) Dominion deposits?—A. Yes.

Q. (3) Provincial deposits?—A. Yes.

Q. (4) Any mortgages the bank may have?—A. No.

Q. Suppose your buildings were mortgaged to a firm in New York?—A. The mortgage would come ahead of the Dominion Government, I would take it.

Q. Then the savings deposits would come in?—A. All the liabilities, their common liabilities.

Q. In that case, savings deposits would be a fifth mortgage?—A. That is not a fair way of putting it.

Q. Is it a true way of putting it?—A. You may think it is a fair way if you like. I do not think it is fair to put it to the public, that they have a fifth mortgage on the bank. I would not admit that for one minute.

Hon. Mr. STEVENS: Any one can dress facts up, so that there will be a complete distortion of them.

Hon. Mr. ROBB: Mr. Spencer, are you building up a record which will disturb the public, and trying to make the public believe that the banking system in Canada is no good?

Mr. SPENCER: I am just as anxious perhaps more anxious than any other people that we should have a sound banking system in Canada, but in my opinion, as in the opinion of many other people, we might improve it.

The WITNESS: Conditions show that savings deposits in Canadian banks are no different from what they are in any other banks in the world. Why do you pick out the Canadian system, and try to pull it down? It is unpatriotic.

The CHAIRMAN: He might eliminate the word "mortgage."

Mr. IRVINE: We have the best banking system in the world, but it is not good enough.

By Mr. Spencer:

Q. It was suggested this morning, that we have a system that is the best in the world and could not be improved?—A. That is what I believe. You are not offering any suggestions for improvement; you are suggesting that we have a terrible system.

Mr. SPENCER: Will you admit that there is room for improvement?

Sir GEORGE PERLEY: How would you improve it?

The CHAIRMAN: I do not want to delay these proceedings, but for certain reasons we will have to adjourn at one o'clock. I was just wondering whether we could finish with Mr. Phipps so that he could be excused for to-day.

By Mr. Ladner:

Q. Would it not be possible to have some system of insurance, to have savings deposits in the banks protected by guarantee, so that those of the public who desired to make absolutely sure that their capital would be in the bank when they went for it, and who have no special interest in the amount of interest they receive could, under that system of insurance or guarantee, be absolutely protected in respect of that particular class of deposit?—A. That was tried in the United States, and the result was not uncertain. All the banks that had those deposits did not care a darn; they took everything they could get and in three or four years the insurance companies went broke. The people got nothing. That is a matter of history.

Q. I know the banks you refer to and the circumstances you refer to. As a matter of fact, I am a great admirer of the Canadian banking system. I believe it is a wonderful system and that we cannot make many changes, but maybe some. I am suggesting that it is only a question of how sound your insurance is?—A. You can insure your deposits now if you want to.

Hon. Mr. STEVENS: We have the government savings banks now, and we have the country behind them. Let them go to the first post office they can reach and deposit their money.

Mr. LADNER: There might not be any, in some particular part of the country.

Hon. Mr. STEVENS: They are all over the Dominion.

Hon. Mr. ROBB: Who is the witness here?

Mr. LADNER: I am asking a few question if Mr. Stevens will permit me.

By Mr. Ladner:

Q. From a banker's point of view, I ask whether it would be advantageous if you had a system of protected accounts, either by insurance or by guaranteed assets to give stability?—A. From a banker's point of view, it is thoroughly impracticable.

By Mr. Woodsworth:

Q. I have a letter here from a member of an eastern Board of Trade, down in the Maritime Provinces, in which he says that in places they feel the effect of the lack of credit. I have no doubt communications along the same line could be given from the West. Would you say there was no basis of complaint of that character?—A. Not when they have the securities to put up, Mr. Woodsworth. If you are suggesting that the banks are unduly cautious in risking their funds——

[Mr. Albert E. Phipps.]

Q. On account of the banks being centred or having their headquarters at cities such as Montreal and Toronto, is it easier to secure credit in the central provinces than it is in the East or the West?—A. No legitimate loan properly secured has been refused, from one end of Canada to the other, since I have been a banker.

By Hon. Mr. Stevens:

Q. As President of the Bankers' Association, have you any objection to any other body, group of men, syndicate, and so forth, establishing further banks in Canada, under the Bank Act?—A. Not a bit. We would not raise a finger to oppose them.

By Mr. Woodsworth:

Q. A business correspondent in Toronto complains that on account of bank directors often being directors of private industrial and commercial concerns, other concerns, rival industrial and commercial concerns, are discriminated against, and he gives his own experience?—A. Well, all he has to do is to walk across the street to another bank. If his business is good, he will be welcome.

Q. You think it does not interfere with business?—A. No. No bank in Canada would dare to discriminate in that way, if they valued an account.

Q. I was sent yesterday, a prospectus, not of a banking scheme, but of an industrial banking arrangement started in the city of Montreal. I believe there are a number in the different cities of the United States. Industrial workers sometimes feel that on account of their low salaries and smaller assets they cannot provide the collateral which is necessary under the present system, but very frequently they have need of credit, to buy a house, or additional furniture for the house, or something of that kind. This plan is to provide in some way for loans running the whole year to be repaid by small instalments. Do you consider there is a range there that is not covered by the banks, but should be so covered?—A. I have had two gentlemen call on me with these proposals and I have advised them both that I thought those schemes would not succeed in Canada for lack of business, because our banking system is a little contrary to that of the United States, where they provide for small loans to small people if worthy. We would do it at a rate of 7 or 8 per cent, and I think the cost of the system was admitted to me by both people to be something over 14.

Q. Not according to the prospectus?—A. Not according to the prospectus. We did figure it out, and you might figure it out when you have time.

The CHAIRMAN: If this is sufficient we will excuse Mr. Phipps. We thank him very much for coming before us to-day.

The Committee adjourned until Wednesday, March 21, 1928.

COMMITTEE ROOM 429,
HOUSE OF COMMONS,
WEDNESDAY, March 21, 1928.

The Select Standing Committee on Banking and Commerce met at 11 o'clock a.m., the Chairman, Mr. F. W. Hay, presiding.

The CHAIRMAN: I might report to the Committee that we have arranged with the Washington Department of the Federal Reserve Board that Mr. Harding, who is Governor of the Bank at Boston, will be here next Wednesday, and he will probably be our leading and only witness in reference to the Federal Reserve System; so I am hopeful that the members will be present in generous numbers and be ready to ask any questions that pertain to that.

We have with us Mr. Tompkins, who is our bank inspector; and we have Mr. Hyndman from the Finance Department. Mr. Hyndman is assistant Deputy Minister; the Deputy Minister is indisposed. Mr. Tompkins has been sworn, and if there are any questions that have developed since the last hearing, we will be very glad to hear Mr. Tompkins.

Mr. IRVINE: I think Mr. Chairman, it would be a good idea if Mr. Tompkins could give the Committee an idea of his own work as inspector; if he can do that briefly.

C. S. TOMPKINS recalled.

WITNESS: Mr. Chairman, before complying with the suggestion that has just been made, I might place on the record some percentages asked for by the member for Weyburn (Mr. Young), I think it was, at the first meeting of the Committee. I gave figures of Dominion notes and gold, held by the banks on the 31st of December, and was asked what relation the total had to the total deposits with the banks at that time.

The percentage works out at 8·4, but I would suggest that that has no very important significance, and I think it would be well to place on the record also the percentage of cash assets, that is, including bank balances on December 31, 1927, to the total liabilities to the public; that is to say, the total liabilities of the bank, with the exception of its liabilities to the shareholders, was 18·7 per cent; and the percentage of liquid assets, that is to say, the ones I have already referred to, and the call and short loans and the various investments, in government and other bonds was 54·6 per cent of the total liabilities to the public.

By Mr. Young (Weyburn):

Q. Are those normal percentages through the year?—A. Yes.

By Mr. Irvine:

Q. If I may be permitted to ask what may be a personal question: Have you had banking experience?—A. Yes. About 22 years, between 22 and 23 years.

Q. Have you been manager of any of the banks?—A. I have been manager. I have served in various positions: manager, inspector, and various positions of that nature.

Q. In your work as inspector with the banks, have you access to all the means of information required to assist you in arriving at a true estimate of

the bank's position?—A. Yes, the Act gives me very wide powers in that respect; Section 54A, under which my appointment was made. I have never had any difficulty or been denied information on any occasion since I have occupied this position.

Q. Would you feel absolutely sure, after you have examined the bank, and found it in good standing, that no information had been withheld in any way?—A. I do. Taking into consideration that I have access to all their internal inspections; that is to say, the inspections carried out at each branch of the bank by their own officers; and I also have a right to the information obtained from time to time by the shareholders' auditors. I am free to consult them, and they must, under the Act, afford me every facility.

Q. You would say that your position does provide an additional safeguard to the public in so far as banking is concerned?—A. I feel that it does.

By the Chairman:

Q. How long have you been with the Government, Mr. Tompkins?—A. Since October, 1924.

Q. Was the creation of your office then?—A. Yes.

By Mr. Spencer:

Q. Mr. Chairman, may I ask Mr. Tompkins a question with regard to inspection work. It will be remembered that in 1924, we had considerable discussion in this Committee in regard to the Home Bank failure. Are you aware of that?—A. Yes.

Q. That bank, I believe, was in a rather precarious state for a number of years owing to the reports of a certain auditor. Is that so?—A. I believe that was so. I have had occasion to discuss their affairs with the liquidator of the bank, Mr. Clarkson, and I believe their whole trouble was incompetent auditing, and the fact that an undue proportion of their assets was tied up in large loans of a very doubtful character.

Q. If your position had been created before that time—would it be possible that such a thing could have occurred again?—A. I hardly think so.

Q. You would be in a position to discover that slackness or error?—A. There would have to be such a collaboration, such a combination of deceit practised by so many of the officers of the bank that I could hardly think it possible that it could be carried through successfully—I say it in all modesty—to deceive me in an examination such as I conduct.

Q. Then the Committee was fully justified in arranging for the appointment of a Government Inspector?—A. In my opinion, I would say so, yes.

Q. I do not want to monopolize the time of the Committee, but I would like to ask a few questions with regard to unclaimed balances in banks. By a return given to the House the other day, we were shown that there was a sum of $2,756,745 in unclaimed balances. How long has that been accumulating?—A. Some of those balances are twenty, thirty, or forty years old; a few.

Q. Is there any interest allowed on these accounts?—A. Oh, yes. Interest accrues on the ones which are interest-bearing accounts. Interest accrues notwithstanding the fact that they have not been claimed.

Q. At three per cent?—A. At three per cent, yes.

Q. Is there no clause in the Bank Act that calls for these amounts after a certain time to be turned over to the Finance Department?—A. No. The only occasion on which they would be turned over to the Finance Department would be in the event of the failure of the Bank. If its assets realized sufficient to provide for all depositors' claims, then at the close of the liquidation such amount as was outstanding would require to be paid over.

[Mr. C. S. Tompkins.]

Q. I understand that the amount is claimed, according to the balance sheet, as a liability of the banks?—A. Quite true.

Q. Have these balances to any extent been claimed from time to time?—A. Oh, yes. Some reported at the end of a certain year might be claimed within the following year. In fact, I may say that care is taken by the banks to have as many claims as possible made, with a view to reducing the number that they are obliged to report; and the mere presentation of the savings bank pass-book, for example, causes a notation to be made in the ledger of the date of its presentation, and it is claimed as from that time onwards, even though no withdrawal or deposit might be made at the time.

Q. I was thinking that such a large amount of unclaimed balances in the banks would also be an asset, as well as a liability if they are allowed to make use of them?—A. The funds are available for their use, the same as other general deposits.

By Mr. Irvine:

Q. But, supposing there is really $2,000,000 never claimed by any one, and three per cent charged to them of interest every year, how many years will it take before all the money in Canada would be chargeable to that particular account?—A. That is a rather difficult question to answer, I am afraid. That would be a matter of some very complicated calculation because, as I said before, deposits are claimed from time to time, and sometimes they may have been reported for three or four, or five years, and suddenly they are claimed.

By the Chairman:

Q. This report of the unclaimed deposits is made by the head office. Is any effort then made to give publicity at the point where the deposit was originally made, to show that it was unclaimed?—A. The bank is required by Section 114 of the Act to notify persons whose deposits are unclaimed, by registered post, and very often that brings the desired result.

By the Chairman:

Q. There is no newspaper publicity?—A. No.

By Mr. Matthews:

Q. Would you repeat that, please?—A. I say, under Section 114 of the Act, the bank is required to notify persons whose deposits are unclaimed; notify them by registered post.

Q. As a matter of fact, the bank wants to get rid of it?—A. Absolutely. I may say there is a very great deal of work involved in the preparation of these returns from year to year. A vast number of these deposits consists of small amounts under $5 which, as I say, involves a great deal of work in the preparation of these returns.

By Mr. Spencer:

Q. Is it possible, Mr. Tompkins, to get in regard to notes in circulation, any report of the amount lost or destroyed?—A. No, that is an unknown quantity.

Q. All notes that are lost or destroyed would be direct gains to either the Dominion Government, or the banks?—A. Oh no, not at all. They remain a liability of the bank forever.

Q. They are a benefit because they are never likely to be a liability?—A. They cannot get any benefit from those that are burned, because they cannot write them off.

[Mr. C. S. Tompkins.]

Q. They carry no interest?—A. No, that is true, but they have to continue to pay their tax on them to the Government; their one per cent tax per annum.

Q. I have a few questions with regard to the Finance Act. Would you be the right witness to ask, or should I ask the Assistant Deputy Minister of Finance?—A. The Assistant Deputy Minister is very well posted on the operation of the Act in the Department. If there is anything particularly relating to the banks' end of it, I might be able to give you an answer.

Q. It is mostly with regard to the changing of the rates of discount?—A. I think that the Assistant Deputy Minister would be the proper person to answer that. That is a matter that comes under the Treasury Board.

By Mr. Bothwell:

Q. Would it not be possible periodically to have publication of those unclaimed balances?—A. The publication was discontinued, if I recall correctly, in 1916, for reasons of economy, solely. I do not believe, in view of the provisions of the Act now requiring notice to be given to depositors, that it would be necessary or advisable to publish the entire list. It might perhaps be thought well to issue in blue book form details of the amounts over a certain sum.

Mr. Irvine: I suggest now that you bring in the Treasury Board.

The Chairman: Very well, we will excuse you, Mr. Tompkins.

By Mr. Ward:

Q. Mr. Chairman, before Mr. Tompkins leaves, I might ask a few questions. You are the banking inspector, Mr. Tompkins?—A. Yes, sir.

Q. You, of course, know something of how that inspection is carried out? How many of a staff have you?—A. I have no staff. So far as the actual examination at the head office of the banks is concerned, I manage to carry that out myself.

Q. You have no assistants, whatever?—A. The banking returns, and the work that was formerly carried on by certain officials of the Department of Finance, continue to be carried on in that same way. Although of course, I have information in regard to all those matters, the actual examinations I carry on myself. I might say that in view of the confidential nature of that work, I have not so far felt it advisable or necessary to engage any assistants.

Q. What percentage of the bank branches do you visit?—A. I do not visit any branches. I have the right to do that, but I have not thought it advisable yet.

Q. But you do examine the head offices?—A. I examine head offices. I can generally get all the information I need from the head offices.

Q. The head offices only?—A. The head offices only.

Q. In your judgment it is not necessary to examine the bank branches?—A. I do not think so. If that were necessary, it would involve a great duplication of work which is already being done, in my opinion, satisfactorily by the bank's own inspectors, whose reports, as I said before, I have access to.

Q. How often do these examinations take place?—A. These branch examinations?

Q. Yes?—A. At least once a year, sometimes more frequently, sometimes twice a year, but at least once.

Q. Just how far does your inspection go?—A. My inspection consists very largely of an examination of all of the large loans of the different banks, that is to say, loans that I consider large in proportion to their total resources, or to their capital and reserve. That involves I might say, about ninety per cent of the work. I also make myself familiar with the details of their investments, call

[Mr. C. S. Tompkins.]

and short loans, and with the details of the head office accounts, including their so-called undisclosed reserves, and all other information which is usually found in the head offices.

Q. That is, you examine the securities held as against those loans?—A. I have a list of the securities. I may say that the securities themselves are physically examined by the shareholders' auditors once or twice a year, and in view of the calibre of the men who do that work now, I would not consider it necessary to duplicate that work.

Q. Was it not so that that was largely the cause of the failure of the Home Bank?—A. No, the main trouble was in respect to their loans classed as commercial loans. There were several large loans, and doubtful or bad loans which were classed in that category.

Q. It was not the weakness of the securities?—A. It was not the weakness of the securities in the sense of securities owned by the bank. Securities are reported in three classes, Dominion and provincial, municipal and railway and other bonds, etc.

Q. Is it not so that nearly all the difficulties our banks have got into in times past, were due to the weakness of the securities?—A. Due to the weakness of the collateral securities or to the weakness of the obligant's financial position.

Q. You have told us you did not examine personally the securities?—A. Quite true.

Q. Do you think we are getting all that we have hoped to get, under the bank inspection?—A. I believe you are, because, as I said before, these are matters for inspection by the shareholders' auditors, who are present in all the banks and are men of very high calibre.

Q. Are they not employed by the banks themselves?—A. No, they are employed by the shareholders themselves and are independent of the banks. As I previously remarked, it has been amply proven that the auditor in the case of the bank mentioned was not competent to value the securities and to perform the work of an auditor generally.

Q. But you think that there was no ulterior motive?—A. No. I think it was a pure case of incompetency, as far as he was concerned. I have no doubt his intentions were of the best.

By Mr. Bothwell:

Q. In a case like that, what power have you?—A. I have power to go to a branch and examine any of the bank's documents. I could go as far as I liked, that is, under section 54A of the Act.

Q. You say you find no reason to doubt the competency of the shareholders' auditors?—A. That is a matter of judgment. I have met these men, and I may say they include men of such outstanding firms as Peat, Marwick, Mitchell and Company; Price, Waterhouse and Company; Riddell, Stead, Graham and Hutchison, and men of that type.

By Mr. Irvine:

Q. It would be impracticable for you, or any other inspector, to examine all the collateral of the banking system in Canada?—A. Simultaneously, yes.

The CHAIRMAN: You gave us the names of two or three firms. The inference might be drawn that other firms were not of equal calibre. On the ground of publicity, would you have any objection to leaving out the names of the firms you mentioned?—A. I certainly would not wish to cast any reflection on firms of equally high standing with those I have mentioned.

Mr. SPENCER: I think he is throwing bouquets at them.

WITNESS: I have no desire to advertise these firms in preference to others.

[Mr. C. S. Tompkins.]

The CHAIRMAN: I see these names being used frequently, Price, Waterhouse and Company, and Clarkson, Gordon and Dilworth.

WITNESS: The latter firm does not perform any bank auditing at the present time.

By Mr. Bird:

Q. Have you power to object to any auditor?—A. The minister has the power under the Act, to object to the name of any auditor.

Q. Have you any responsibility?—A. I am consulted in that respect by the department.

By Mr. Spencer:

Q. Did he not have the same power at the time of the Home Bank difficulty?—A. I believe he did, the same existed.

By Mr. Ward:

Q. Do you think the present auditors employed are competent?—A. I do.

Q. What percentage of loans are made from the head offices?—A. You mean from the head offices proper?

Q. Yes.—A. That is to say, not the chief branch in the city where the head office is located?

Q. No.—A. A very small proportion.

By Mr. Matthews:

Q. None are there?—A. Practically none in some banks, and if there are, they are of a very temporary nature.

By Mr. Ward:

Q. From what offices are the chief loans made?—A. The large centres, such as Winnipeg, Calgary, Vancouver, Montreal, Toronto. Obviously the larger places have the larger volume of business.

Q. But you have no idea as to the percentage?—A. No. I have never thought it worth while to work that out, at any given dates.

By Mr. Matthews:

Q. I think you might add that their loans made at these branches are reviewed and approved at the head office?—A. They are, and they are approved prior to the head office's approval by the district superintendents of the bank.

By the Chairman:

Q. There is a general feeling, Mr. Tompkins, that the question of exchange on cheques, large and small, is annoying, in a measure; that is, the cashing of a cheque in a community, with a small exchange charge. Is that a question for regulation by the banks themselves; you would have nothing to do with the charging of the exchange rate?—A. No, that is a matter of competition. I may say that these charges generally are not as large as they used to be, when transportation was not as good as it is at the present time.

By Mr. Ward:

Q. In a bank, just a few days ago, I presented a cheque to have it cashed, and the teller requested a certain amount of exchange. I refused to pay it. I said, "You are overcharging me, you are charging me twice as much as it should be," and he promtly accepted just one-half the amount. Is that a conmon thing in the banks?—A. No, I cannot say that it is. He should have been reported? I think a matter like that should have been reported to the manager and an explanation asked for.

Mr. CASSELMAN: What rate were you charged?

[Mr. C. S. Tompkins.]

By Mr. Ward:

Q. There is no harm in putting it on the record. The cheque was for $300 and some odd, and the teller wanted to charge me 60 cents. It was about $360, if I remember correctly. I told him that I thought 30 cents was about the regular rate, and he accepted the 30 cents.

Mr. CASSELMAN: I think you got it at less than the regular rate.

The CHAIRMAN: The point I have in mind is that it would be much more agreeable and acceptable if the banks in Canada carried no exchange, just as they do in the United States. I suppose that that can be explained by the fact that funds are required in big centres of the United States and unquestionably they do cash cheques without exchange much more generously and perhaps with much more regularity than we do in Canada. You can cash a cheque in New York at any place without any charge. I suppose that that is because of the New York funds.

Mr. IRVINE: I do not see why there should be any exchange as between the branches of the various banks.

Mr. SPENCER: Take the practice of the British banks; for many years they never charged anything on cheques drawn on any branch of a particular bank. I do not know what it is like in the east, but in the west you might have three branches of the same bank in three little towns close together, and they will charge a discount on every cheque drawn on those branches of the same bank. I do not suppose Mr. Tompkins is responsible for that.

The CHAIRMAN: No. That is a matter of bank competition.

Mr. IRVINE: That is just the practice of the best banking system in the world.

The CHAIRMAN: Is there anything more from Mr. Tompkins?

By Mr. Ward:

Q. I have one more question. You said you accepted the reports of the local bank branches; are you satisfied with the reports of the local managers? —A. These are not reports of the local managers; they are reports of the bank's own inspectors.

Q. Perhaps I did not put my question just clearly, but this is my point; are you satisfied with the reports of the audit that is made of the local branches? —A. I made it my particular business in the first year of my occupancy of this office to familiarize myself with each bank's inspection system, and I felt satisfied with the general system that they followed.

By Mr. Ernst:

Q. I doubt if there is any banking system in the world that has a more efficient system of inspection than that followed in the Canadian banks?—A. Quite so; it is conducted on a very high standard.

By Mr. Spencer:

Q. It was not so with all of them, until 1924?—A. With one exception.

The CHAIRMAN: If there is nothing further, we will excuse Mr. Tompkins now. He is our official, and is available at any time we want him.

Witness retired.

GEORGE W. HYNDMAN, called and sworn.

By the Chairman:

Q. I suppose we are unfamiliar with your department, Mr. Hyndman. If you will just give us a little idea as to what line of activity you follow the members of the Committee will ask you questions from time to time?—A. I have

[Mr. G. W. Hyndman.]

no particular statement to make, sir. I was under the impression that we would be asked questions.

By Mr. Irvine:

Q. What is your position?—A. Assistant Deputy Minister of Finance.

By the Chairman:

Q. The Deputy Minister, Mr. Saunders, is indisposed?—A. Yes.

By Mr. Irvine:

Q. How many years have you occupied the position which you now have? —A. For the last four years; previous to that I was comptroller of currency for some years.

Q. Have you made any special study of economics in connection with finance or are you purely an expert in the Department of Finance itself?—A. I am not an economist.

Q. Do you understand the working of a Federal Reserve System such as they have in the United States?—A. I have a general idea of it.

Q. Do you consider that the Treasury Board exercises exactly the same functions in Canada as the Federal Reserve System does in the United States at the present time?—A. Yes, as far as it is necessary.

Q. What do mean by, as far as it is necessary?—A. Well, the operations of the Finance Act which came into existence in 1914, which operates under the direction of the Treasury Board, have demonstrated that they are well able to take care of the requirements of the banks, the seasonal borrowings, and things of that nature.

Q. They can take care of the banks but do you consider that they take care of the functions that are taken care of under the Federal Reserve System? —A. The Federal Reserve System in the United States is a bank of rediscount. We are practically the same thing.

Q. Do you think that is the only function of the Federal Reserve System in the United States?—A. No.

Q. What other functions does it attempt to perform?—A. It has other functions, mainly re-discounting, the issue of currency.

Q. What others, would you say?—A. I do not know that I am prepared to go into the details. I have studied it in a general way.

Q. You would say that the Treasury Board in Canada performs, or at least may perform, has the power to perform under the Finance Act, and probably does perform the discounting functions of the Federal Reserve system, but no other?—A. Yes.

Q. You would not perform any other?—A. No, not under the Finance Act.

Q. In that case, if there are other functions performed by the Federal Reserve System which might be considered of value, we might be well advised if we proceeded with the organization of such a system, since you do not now perform them?—A. I did not get the last part.

Mr. Ernst: The question is double-barrelled.

Mr. Irvine: I did not intend it to be double-barrelled. Maybe it is a blank.

By Mr. Irvine:

Q. The point, Mr. Hyndman, is that you affirm that the Treasury Board performs the discounting functions of a Reserve System?—A. Yes.

Q. But no other. Then if there are other functions in a Reserve System which might be considered of service to the nation, for any reason whatsoever, we might be well advised to proceed with the organization of such a system, since you do not perform those functions?—A. I do not know that it has ever been represented that there are any functions we might perform that we do not.

[Mr. G. W. Hyndman.]

Q. Is it not so, that the Federal Reserve System in the United States, has made a very successful attempt in controlling the price of money?—A. I am afraid I am not competent to answer that question.

Q. I can assure you that they have. I do not know whether you have made any attempt to do that through the operations of the Finance Act, have you?—A. Well, the Finance Act is not used in Canada to the extent that the Federal Reserve System is used in the United States.

Q. Have you raised or lowered the discount rates within the last year? —A. Yes.

Q. For what reason?—A. The rates were lowered, or were changed in November, 1927. The rates were lowered.

Q. And later?—A. No, they have not been changed since then.

Q. When was that?—A. November, 1927.

Q. From what? Five and one half to four?—A. They are three and three quarters now.

Q. Why were those rates lowered at that time; have you any idea?—A. Yes. The New York call-rates, the Federal Reserve rate in October, November, and December of last year were lower. The New York Federal Reserve Rate was three and one half. About the 1st of February it was raised to 4 per cent; the call rate in New York in October and November, varied from 3.60 to 3.85.

Q. Therefore we know that the discount rate was altered in Canada because it was altered in New York?—A. If we kept our rate up we might force our banks to borrow in New York, and we prefer to have them borrow under the Finance Act in Canada.

Q. That does not seem to me to be a sufficient reason for lowering your rates. It may be a practical one from a banking point of view, but it may be a very dangerous one to follow from the point of view of the nation?—A. I do not think so. It is a matter of opinion.

Q. I think it would be a matter of fact. However, I do not wish to take up any time with it.

By the Chairman:

Q. Mr. Hyndman, you spoke about seasonal borrowing. Is the privilege of borrowing from the bank for circulation not operated all the year round?—A. Yes, but it is roughly in crop-moving time.

Q. I suppose your price for money is fixed upon the price of money throughout the world, or from your neighbour, or whatever they might borrow?—A. It has an affect on it.

Mr. Irvine: It has never had that effect in the West, Mr. Chairman.

By the Chairman:

Q. You have no way of showing in your returns brokers' loans in Canada; you have no separation except in the designated forms in the bank returns?—A. That is a question for Mr. Tompkins, not for me.

By Mr. Ward:

Q. When discount rates dropped, say, from 5 per cent to $3\frac{3}{4}$ per cent, why was there not a corresponding reduction in the price of money to the public?—A. Well, I am not altogether able to answer that question, not being in touch with the banks. It is purely from a departmental point of view that these rates are changed from time to time. They have been changed three times I think since the Finance Act came into existence, under the direction of the Treasury Board.

Q. Do you not think the banks should have reduced their rate?—A. It is a matter of supply and demand with the banks.

Q. Your opinion is that it is a matter of supply and demand that controls the rate of exchange or rediscounting?—A. Not altogether.

[Mr. G. W. Hyndman.]

By Mr. Spencer:

Q. I have a few questions I would like to ask with regard to the Finance Act. Would you give me roughly the securities the banks can bring to the Treasury Board?—A. I may say that the Finance Act was pretty well described in the evidence given before the Committee in 1923 and 1924; it is all in the records and they are pretty well described, as to the advances that may be made, in the Finance Act. I will read them, if you like.

Q. I have a pretty good idea of them, but I wanted to see if your evidence coincided with other evidence that has been given to us. You would prefer to read them from the Finance Act?—A. Absolutely.

Q. Is there any guarantee in regard to loans made to the banks through securities lodged under the Finance Act that the money will not be used for speculative purposes?—A. No. The Finance Act states that the banks may pledge these securities and borrow Dominion notes against them.

Q. In what denominations are those notes?—A. Mostly in the $50,000 denominations.

Q. But they can come down to $1?—A. Yes. They can bring their $50,000 notes back and make them exchangeable at any time at our offices.

Q. There are ones, twos, and a few fours?—A. The fours were recalled ten or fifteen years ago.

Q. They are still in circulation?—A. Very few of them.

Q. They are in the larger denominations. How is the Treasury Board constituted?—A. The Treasury Board is constituted of so many members of the Cabinet—six.

Q. Can you give me a list of the present members?—A. The present members?

Q. Yes?—A. The Minister of Finance is the Chairman; then there is Mr. Dunning, Mr. Stewart, Mr. Euler, Dr. King, and Mr. Lapointe. Those are the present members.

Q. Why did the Treasury Board reduce the rate of discount on the 1st of February, 1924, from 5 per cent to $4\frac{1}{2}$ per cent?—A. Well, money rates were down in New York. The Federal Reserve rate was down.

Q. Would you give the same answer to the following question: why did they reduce the rate on the 1st of November, 1927, to 4 per cent and on the 1st of December to $3\frac{3}{4}$ per cent?—A. I beg your pardon?

Q. Would you give the same answer to that question? I notice the rate was reduced on the 1st of November, 1927, to 4 per cent and again on the 1st of December of the same year to $3\frac{3}{4}$ per cent?—A. Quite. The rates vary in New York from day to day. Our rates do not vary as much here.

Q. Was not speculation fairly rife in the latter part of 1927, in stocks particularly?—A. That is not a question I can answer very clearly. It does not come under the supervision of our department.

Q. The general opinion is that it was, that speculation was fairly rife. If the Treasury Board was making any effort at all to regulate the price level, would it not be in the best interests of the country to lower the rate when business was slow and increase it when speculation was rife?—A. Well, the Finance Act has been used very, very little by the banks, in the last few years, and any change in the rate made by the Treasury Board, I do not think would have had any effect on the speculators. Since 1921 I have the greatest amounts outstanding here in any one year. The largest amount we have had out was in 1922, namely, $61,000,000. That was the largest amount we had outstanding in any one year from 1921 down to the present time.

By Mr. Matthews:

Q. Commercial expansion would have more to do with it?—A. Absolutely.

[Mr. G. W. Hyndman.]

By Mr. Spencer:

Q. It seems to me that when the Treasury Board of the Dominion is discounting securities for the banks as low as $3\frac{3}{4}$, in all fairness the banks should lower their rates to the public?—A. I cannot answer that.

Mr. MATTHEWS: It might be that the banks are not borrowing the money, and are not using it at all.

By Mr. Spencer:

Q. How much is out at the present time?—A. The highest amount outstanding, in February, was $28,000,000. I think it is a little under that now. I have the exact figures here somewhere. Up to date (yesterday) $14,000,000 was outstanding under the Finance Act.

Q. Is it correct that on the 1st of December, 1927, the Government borrowed from the banks on Treasury bills the amount of $45,000,000?—A. Yes.

Q. At what per cent?—A. Four per cent.

Q. Can the banks bring those same securities back to the Treasury Board and get them discounted?—A. Yes.

Q. At $3\frac{3}{4}$ per cent?—A. At $3\frac{3}{4}$ per cent.

Q. Do you think that is good business on the part of the Government?—A. I think so.

Q. And lose a quarter of 1 per cent?—A. I would not say that.

Q. If they borrow from the banks at 4 and lend back on the same security at less?—A. That is entirely a different proposition. We borrow from the banks maybe on Treasury bills or on three-year notes; the banks are not borrowing under the Finance Act, against those bills, to any extent, if they are at all.

Q. They can, though?—A. They can, but they are not doing it. They may come in and borrow money for a week or two weeks or three weeks. I do not think it would be fair to the banks or any other organization to ask them to pay more. It is a different proposition, borrowing for two or three weeks, or even six months, to finance as against three years or longer.

Q. But they have the right under the Finance Act to bring those securities back and get them rediscounted?—A. Yes, but we can always change the rate. If there are large borrowings under the Finance Act, and we do not want them, the rate can be changed over night; it can be changed at any time by the Treasury Board.

By Mr. Matthews:

Q. The term "discounting" has been used. Mr. Spencer has been asking you if the banks could take the securities back for discount. They do not discount them, they borrow upon them?—A. They put them up as collateral. That is a different thing from discounting.

Mr. SPENCER: What other name would you give it, Mr. Mathhews?

Mr. MATTHEWS: I do not think they are the same. I may be wrong.

WITNESS: The notes themselves, or bonds, or whatever they put up, are put up as collateral against the loan.

By Mr. Vallance: When you discount a note, you sell the note, and when you borrow on a note, you give collateral?—A. Give collateral.

Mr. SPENCER: They can bring back exactly the same securities. It comes to exactly the same thing. The Government borrows from the private banks on treasury bills at 4 per cent; they are enabled under the Finance Act to bring those bills back to the Treasury Board and get money at $3\frac{3}{4}$. I think that is correct

[Mr. G. W. Hyndman.]

Mr. MATTHEWS: Temporary money.

Mr. SPENCER: I say they can get it. I do not say "temporary".

By Mr. McLean (Melfort):

Q. Can they get money without limitation, or money for a very short period, a very temporary period?—A. Under the Finance Act, advances of Dominion notes may be made for a period not exceeding one year.

Q. To the bank?—A. To the bank. Those advances, or whatever you like to call them, may be renewed from time to time by the Treasury Board. They all expire automatically on the 1st of May, and the banks send in their new applications for credits.

By Mr. Spencer:

Q. I would like to ask you a few more questions with regard to notes. I do not know whether this comes under your Department or Mr. Tompkins' Department?—A. Dominion notes come under the Dominion Notes Act.

Q. What is the difference between a Dominion bond, and a Dominion bill?—A. A Dominion note, with certain exceptions—I mean the Statute authorizes certain free issues of notes, a bond is the same as any other bond issued by a corporation or a Provincial government.

Q. Are they not both based on the assets of the Dominion of Canada, and both guaranteed?—A. It is an obligation of the Government. You can call it a guarantee or not.

Q. The Government keeps its obligations?—A. Yes.

Q. The main difference, of course is, that one bears interest and the other does not?—A. One bears interest and the other does not.

Q. Would it not be in the interest of the country if more of these non-interest bearing vouchers were issued?—A. Notes?

Q. Yes?—A. No, decidedly no.

Q. For what reason?—A. Our Dominion notes are backed by gold to the extent of something slightly over 50 per cent. The Federal Reserve notes are backed by not less than 40 per cent gold. The Bank of England and Treasury notes are slightly below that, but their endeavour is to get it up to at least 40 per cent. They have not got there yet, since the war. I do not think it would be advisable, in a country like Canada, wide-spread, to have any less gold reserves than we have.

Q. Are not all Dominion bonds payable in gold also?—A. Some of them are, some are not. The reason some of them are payable in gold was that during the war period a great many of our bonds were sold over the border, in the United States. That is the reason payment in gold was put in our Dominion of Canada bonds.

Q. Do you find any more ready sale for a bond payable in gold than for one that is not?—A. In all our issues, from the commencement of the war, in Canada, I do not think it had any effect one way or the other.

Q. What returns do the banks give to the Dominion Government for the privilege of issuing notes (*a*) in taxes. (*b*) in interest, or in any other way?—A. Do you want it for a period of one year?

Q. I do not mean in the aggregate. Is there not a one per cent tax?—A. There is interest on excess circulation, September to February, 5 per cent. There is interest on the advances under the Finance Act, and there is the War Tax Revenue.

Q. That is 1 per cent?—A. That is 1 per cent.

Q. Then there is of course the $3\frac{3}{4}$ per cent now charged?—A. Yes, I included that under the Finance Act.

[Mr. G. W. Hyndman.]

Q. Perhaps you would be good enough to give me some information with regard to gold. I notice according to Hunstoon's estimate that the production in Canada in 1927 was between $44,000,000 and $47,000,000 in gold.—A. I think that may be a little high, according to the estimates I have seen.

Q. Does the Government buy all the gold offered to it?—A. Generally speaking, no. Sometimes we buy it, sometimes we do not buy it.

Q. What is the law governing that?—A. It is a matter of whether we want the gold or not. That might determine it. At the present time we are buying all the gold that is offered—more as a convenience to the mines.

Q. It is not compulsory?—A. It is not compulsory. They have the right to take any gold to the mint and have it coined into British sovereigns.

Q. At what cost?—A. There is a certain cost. I think I have it here. It is the regular Mint charge. I have it here somewhere. I will get it for you.

Q. You say they are buying all they can get. What is given in return?—A. We pay cash for it.

Q. Dominion notes?—A. No, out of our cash.

Q. They could ask for Dominion notes if they wanted to?—A. They would not want the Dominion notes; they want credit in their bank.

Q. Anyway, it is cash, and they can draw on it?—A. Yes.

By Mr. Bird:

Q. When you sell that gold for commercial purposes, what is the margin of profit?—A. There is a reasonable margin of profit. I have not got the figures here. It is a matter for the mint. Our mint is a branch of the Royal Mint. In that way, if they sell gold, they can only do it with the permission of the Minister of Finance. We allow them to supply the trade with small gold bars, at a small profit to the Mint.

By Mr. Irvine:

Q. Are you allowed to purchase all the gold in Canada?—A. Not at all.

By Mr. McLean (Melfort):

Q. In the case of a mine smelter producing gold, is it free to sell outside the country?—A. Yes. Some of our Ontario mines do ship to the United States—a few of them—but most of them are delivering it at the present time to the Dominion Government.

By Mr. Irvine:

Q. What determines whether you buy it or not?—A. We have been requested by the mines for some years back to take the gold whenever it is offered. We also take over the silver, and use it in our coinage.

Q. You would not buy gold simply because the mines asked you to?—A. No.

Q. What happens when you buy half a million dollars worth of gold?—A. It shows in our gold returns. If we buy more than we require it shows as excess gold. We might ship that gold to New York.

Q. When did you ship the last gold to New York?—A. I could not tell you off-hand, but possibly three months ago.

Q. I would like to know how much you shipped, if you can find that out, why you shipped it, and how often it has been done in the last twenty years?—A. We have that information in the Department.

By Mr. Spencer:

Q. Could you get that information and submit that at another meeting?—A. Yes. (*See page 114*).

The CHAIRMAN: Let us get the question clearly, and it can go into the record. Would that be agreeable? What is it you want?

[Mr. G. W. Hyndman.]

By Mr. Sanderson:

Q. While we are on the gold question, how much are the banks supposed to keep on hand?—A. There is no set percentage; just what they consider necessary for their own business.

The CHAIRMAN: How far back, Mr. Irvine, do you want that?

By Mr. Sanderson:

Q. You say that there is no provision for them to keep any certain amount of gold on hand?—A. No.

Q. Are they not supposed to pay out gold if a customer demands it?—A. No. A bank note is not redeemable in gold; it is redeemable in legal tender. That means Dominion notes or gold. Dominion notes are exchangeable for gold at any of our offices.

Q. Is there no law appertaining to the amount they are supposed to keep; has there been any change in the law within the last ten years?—A. Not that I know of.

By Mr. Irvine:

Q. It was heralded in the press some time ago, that Canada had gone back to a gold basis. What do you mean by that?—A. I thought everybody knew that at the commencement of the war, payment of gold was stopped. We came back to it on the 1st of July, 1926, that is, the Act ran out and we did not renew it.

Q. It made no difference?—A. It made no difference.

Q. There is nothing now except the fetish, which some foolishly accept.

The CHAIRMAN: To clear up that question about what we want; we want the dates and the amounts of shipments of gold from Canada during the past number of years.

Mr. IRVINE: Say ten years.

Mr. SPENCER: Shipments from the States to Canada?

Mr. IRVINE: I am not interested in their shipments of gold to Canada; we do not want their gold.

The CHAIRMAN: For the last ten years, the amounts and dates of shipments of gold to the United States, shipments out of Canada.

Mr. IRVINE: I would like that checked up with the trade balances at the moment it was shipped. I want to know why it was shipped.

WITNESS: Do you mean the gold shipped by the Government? The banks ship far more than the Government.

By Mr. Irvine:

Q. The only sure way is, to get both?—A. Of course these figures are all shown in the customs returns.

By the Chairman:

Q. You will file your record so far as the Department is concerned?—A. I will. *(See exhibits Nos. 2 and 3—pages 114 and 117.)*

By Mr. Ward:

Q. Before we leave that question, my understanding of the gold reserve is that the gold carried has a direct relationship to the note issue of the banks; is that not so?—A. Not in regard to the banks.

Mr. McLEAN (Melfort): Mr. Chairman, perhaps the term, "gold securities" is used by the banks. Government securities are redeemable at their face value in gold. Does that come into question?

WITNESS: I do not think so.

[Mr. G. W. Hyndman.]

By Mr. McLean (Melfort):

Q. There must be some security behind them?—A. Do you mean bank notes, or Dominion notes.

Mr. TOMPKINS: I may say that bank notes are issued against the general assets of the bank, and besides that they have the security of the double liability of shareholders.

Mr. IRVINE: Are not the general assets of the bank regarded as gold by the Treasury Board?

Mr. TOMPKINS: I do not understand what you mean. A bank deposits securities of various kinds.

Mr. IRVINE: It becomes gold when deposited.

Mr. TOMPKINS: I do not see by what possible miracle you can do that.

Mr. IRVINE: It is easy for the best banking system in the world.

Mr. TOMPKINS: Bank notes as I said are against the general assets of the bank. They are not required by statute to carry any set amount of gold, or percentage of gold, or even Dominion notes, against their note circulation, nor have they ever been required to do that.

Mr. BIRD: It is only the issue beyond that.

Mr. TOMPKINS: Excess circulation must be covered dollar for dollar by Dominion notes or gold in the Central Gold Reserves.

By Mr. Bird:

Q. You said that in a new country like ours, widespread, it is necessary at least, to have 50 per cent of gold behind a Dominion note issue. You did not say why, Mr. Hyndman?—A. 50 per cent is about the same margin, or slightly more than the Federal Reserve Banks require to hold. They hold forty.

Q. Has there been anything to indicate that that is the required amount; would not 25 per cent or even 10 per cent be desirable? Has there been anything to show that 50 per cent is the required amount of gold behind them now?—A. It is within reach of the rate set by other countries, that is, the United States and Great Britain.

Q. You seemed to discriminate, when you said a country like ours, widespread, required so much, and I just wanted to know why you said that?—A. We are a largely extended country.

Q. You do not believe that gold is purely a psychological thing, that it is there for psychological purposes?—A. Under our statute, we have to keep gold in all provinces, in order to redeem Dominion notes if presented.

Q. But it is just a psychological reason?—A. At times.

By Mr. Irvine:

Q. You did not do that during the war?—A. No. Our notes were not redeemable in gold during the war.

Q. It would be just as good if they were not redeemable now?—A. I cannot agree with that.

Q. Why can you not agree with that? Who wants gold, what do you want with the gold except to fill teeth. It is of no other value.—A. It is very useful for exchange purposes sometimes.

By Mr. Spencer:

Q. There is no demand for gold by way of exchange?—A. Very very small, practically none.

By Mr. Irvine:

Q. I am not clear about what this 50 per cent of gold was; 50 per cent of Dominion notes in circulation, or bank notes in circulation?—A. Just Dominion notes. We have nothing to do with the banks' notes.

[Mr. G. W. Hyndman.]

By Mr. McLean (Melfort):

Q. Is it segregated and held for any other purpose?—A. No other purpose. We also hold 10 per cent in addition against savings bank deposits, that is, Government and post office savings bank deposits.

Q. You do not use it for any other purposes?—A. Absolutely no. We could not.

Q. Against bonds and securities of various kinds sold by the Dominion, there is the general credit of the Dominion?—A. The general credit of the Dominion.

By Mr. Spencer:

Q. You know Mr. Hydnman, of course, or I take it for granted that you know, that in every big crisis in history the gold basis has been dropped; we did that in 1914?—A. Yes.

By Mr. McLean (Melfort):

Q. Did the United States take the same action during the war?—A. Yes, Mr. McLean.

Q. Just as a precautionary measure?—A. As a precautionary measure. In a sense, we were never really off the gold basis during the war.

Witness retired.

The Committee adjourned until Tuesday, March 27, 1928.

COMMITTEE ROOM 277,

HOUSE OF COMMONS,

WEDNESDAY, March 28, 1928.

The Select Standing Committee on Banking and Commerce met at 10.30 a.m., the Chairman, Mr. F. W. Hay, presiding.

The CHAIRMAN: Gentlemen: We have with us this morning Mr. Harding, of Boston, who was for eight years a member and Governor of the Federal Reserve Board in Washington. Mr. Harding is now Governor of the Federal Reserve Bank of Boston. He comes to us willingly and generously, and I know we will all be very well repaid with the information he will be able to give us. We have thought, a goodly number of times, about the great value and great importance of our Canadian banking system, and while we may be disillusioned to some extent after hearing Mr. Harding, still I am hopeful that he will give us—and I know he will—many kindly words, because he comes from a friendly and a kindly neighbour and nation. Without further words, except to express to Mr. Harding our deep appreciation for his kindness in coming to us, I would ask that Mr. Robb, our Minister of Finance, say a word.

Hon. Mr. ROBB: Mr. Chairman and gentlemen, on behalf of the Government and the members of the House of Commons, I join the chairman of the Banking and Commerce Committee in extending to Mr. Harding a very hearty and cordial welcome to Canada. We Canadians appreciate the compliment that Governor Harding has paid to us—he has a very busy life and great responsibilities—in coming voluntarily to meet with our Committee and advise us upon questions more particularly affecting the banking system of this country. May I say to Mr. Harding that we Canadians are not at all sensitive people; we want him to tell us frankly and openly wherever he in his judgment feels that there is a weakness in our banking system, so that when we come to the next revision of the Bank Act, in a few years, we will have the advantage of his advice. I join with you, Mr. Chairman, in extending a welcome to Mr. Harding.

W. P. G. HARDING (Governor, Federal Reserve Bank, Boston) was called.

The CHAIRMAN: Mr. Harding, if you have no objection, we will be very pleased if you will just be seated, and address us. I will ask that if the members have any questions, they will jot them down, and I know Mr. Harding will be very pleased to answer them, after he has talked to us.

Mr. HARDING: Mr. Chairman and Mr. Minister: It is a great pleasure to me to be in Ottawa this morning. I have long had a very high admiration for the Dominion of Canada, and for the progress you have made in the face of a good many obstacles. My attention was called particularly to the heroism of the people of the Dominion during the Great War. The United States was in the war about eighteen months, and I recall very vividly the sacrifices we made, the hard work that all of us did, and I can appreciate how much more you were called upon to endure during the whole period of four years; the sacrifices in men, resources, and money. It was a very great pleasure to me, during the time that we were in the war to be able to do things at times to co-operate with the wishes of the Dominion. I recall that during the year 1918, there was an embargo upon the shipment of gold from the United States; and that the executive order of the President put upon the Federal Reserve Board the duty

and responsibility of issuing licenses permitting exports of gold which might be deemed to be in the public interest; and I recall that on one occasion Mr. Pease, who was then President of the Canadian Bankers' Association, came to Washington with three or four of his associates, and told us something of your currency system. He came there asking for a license to export to Canada as much as $25,000,000 of gold, which might be needed as cover for additional currency. The Federal Reserve Board very willingly granted the license. I never followed it up. I did not recall whether any exports were made under that license, but in mentioning the matter yesterday, I found that you imported no gold under that license; it was a precautionary measure only. It very often happens, as you know, when there is a run on a bank, if the depositors find they can get their money, they do not take it. In the same way, when the Dominion authorities found that the gold was available in the United States if they wanted it, they managed to get along without it. So, we did you a nice neighbourly act, saved our politeness, and kept our money too.

I was not aware that there was any movement to amend your banking laws in Canada, until about two weeks ago. I was in Washington on another matter, and called at the offices of the Federal Reserve Board. I was informed that the Governor of the Board had just received a telegram from Mr. Hay asking if either I or a representative of the Federal Reserve Bank of New York would come and testify before this Committee. The Board decided that in view of the fact that I had been President of a member bank in Alabama, had served as a member and governor of the Federal Reserve Board for eight years, and was now Governor of one of the Federal Reserve banks, it might be well for me to come. The members of the Board, in discussing the matter with me, outlined their views, which are entirely in accord with my own, to the effect that I should not come to Ottawa with any idea of giving you gentlemen advice, especially unasked-for advice. Of course, any knowledge that I have of the Canadian banking system is derived from what I have read about it. I have had no practical experience with it; my knowledge of it is necessarily superficial. But, I am here to outline to you, in a broad way, just what the Federal Reserve system of the United States is, and what it is not; and then after I do that, I will tell you what its functions are, some things that it can do and does do, and some things that it cannot do. Then you will be in a much better position I think, to decide for yourselves whether or not you wish to modify your own banking laws so as to incorporate some similar structure into your banking system here. There is quite a long story connected with the inception of the Federal Reserve system.

Back in the year 1791, Alexander Hamilton, who was the first Secretary of the Treasury—and "Secretary of the Treasury" is the name that we give to our Finance Minister—advised that in his opinion it was necessary to set up a Central Bank, and Congress passed the necessary legislation, and the first bank of the United States was incorporated and organized. At that time, the United States was a small country, and a very poor country, infinitely smaller and poorer than your great Dominion of Canada is to-day. The population was I suppose, from three and a half to four millions and the natural resources of the country were largely undeveloped. There was not very much accumulated wealth. It was necessary to rely upon Europe for the capital with which to inaugurate the first Bank of the United States. If I remember correctly, the majority of the stock was held in Holland. Some little American capital went into it. That bank was given a charter for twenty years. It had the note-issuing privilege, and it functioned well and served a very useful purpose. But, meanwhile, during those twenty years, the country had been developing, and there were a number of banks chartered by different States, such as Pennsylvania, New York, and Massachusetts, and in 1811, when the

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bank's charter expired, there was considerable opposition to the renewal of the charter. A good many of the State banks were opposed to the renewal of the charter, and they were successful in their opposition. By a very small margin in one of the Houses, the Bill renewing the charter was defeated.

Then we got into the war of 1812 with Great Britain. In 1816, the country was in very bad condition. The then Secretary of the Treasury—Mr. Albert Gallatin, who, as a member of Congress had opposed the renewal of the charter of the Bank of the United States—saw the need for another institution, so he reversed his position, and came out in favour of a new Bank of the United States, which is known in history, as the second bank of the United States. That was incorporated along the lines of the original bank, with a larger capital, and a larger proportion of American ownership. The controlling ownership was still private; and the bank established a number of branches. It had branches in places like Portsmouth, New Hampshire; Natchez, Mississippi; Chillicothe, Ohio; all places which are comparatively insignificant now, neighbouring cities having outstripped them. In the year 1819, this bank got into bad shape, and it looked as though it was headed for failure. The management was changed. Mr. Biddle of Philadelphia became president—Nicholas Biddle—and for some years it was successfully operated; but, it began to get into politics. In New Hampshire particularly, the branch bank directors were members of the party which was opposed to the party represented by Andrew Jackson, and there was complaint that one man had gone to the bank to get a loan of $500, and was turned down. Mr. Biddle was a high spirited man, and he undertook to defend his institution. Andrew Jackson was elected President in 1828, and in his annual message to Congress for the year 1830, he took a very strong position against the renewal of the charter of the bank. The bank had the note-issue privilege, and received the government deposits. Jackson was unwilling to wait until the expiration of the bank charter. He issued an order to his Secretary of the Treasury to remove the Government deposits from the bank. The Secretary of the Treasury demurred, and Jackson removed him. He appointed another Secretary of the Treasury, who, before he became Secretary of the Treasury, was willing to sign the order to remove the deposits; but, after he got into office he saw that the removal would create confusion, so he refused to sign the order, and he in turn was removed. Finally, President Jackson got a man who was willing to sign the order, after a period of several months. Meanwhile, the Presidential election of 1832 came on. Jackson was a candidate for re-election and Henry Clay, the great Whig leader opposed him. The bank was the main issue in that election. Unwisely, perhaps, the President of the Bank (Mr. Biddle) became aggressively active in politics as a very pronounced supporter of Henry Clay, on a Bank Platform, and the Bank got into politics. You know, it has been our experience that it is unsatisfactory for banks or bankers to be actively engaged in politics. Sometimes a small country bank may take part in politics very well, but it is an exceedingly dangerous thing for the larger banks to engage in political activities; it reacts on them.

The election of 1832 resulted in a very decided Jackson victory, and finally the bank's charter expired, without renewal. That was in the year 1837. The bank then took a charter from the State of Pennsylvania. It had lost its Government deposits, it had lost its prestige, and it had lost to a large extent its ability to circulate its notes, and it led a very troubled existence. The panic of 1837 affected it severely and after one temporary suspension it closed finally and forever in the year 1841.

The United States afterwards adopted the sub-treasury system, under which all collections of moneys for the United States Government went to the treasury

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and to the various sub-treasuries, and be locked up in safes. That was found to be an unsatisfactory proceeding, because it took money out of circulation. This was the period of State bank notes or "yellow dog" currency. Anybody could start a bank in the States and issue circulating notes. The laws of the States were various; there was no uniformity at all. A few of the States, such as Louisiana had very good banking laws. There was a strong bank in Wisconsin known as George Smith's bank. The State Bank of Indiana was a very good institution. But as a rule, parties who held notes issued by State banks would find that the value of those notes varied directly with the square of the distance from the office of issue, so that a man working his way from Louisiana to New York with his pocket full of notes issued by a bank in Louisiana by the time he got to Tennessee, would find his notes at a discount. He would trade them off and get Tennessee notes, then when he got to Virginia he would find that they were again at a discount, so that when he got to New York he would find the amount of his pocket money considerably reduced by reason of these successive discounts.

The country muddled along up to the time of the Civil War with State Bank notes as the main circulating medium. There were many bank failures in 1857, when there was another financial panic, and the note holders, as well as depositors lost their money. Then the Civil War came on, and the United States Government was hard put to it, to find money to meet the expenses of the war. Bonds bearing interest as high as 7.3 per cent were issued, the gold standard was abandoned and governmental expenses were met in part by the issue of Treasury notes or "green backs" as they were called, which although fiat money, were made by law legal tender for all debts public or private except customs. Despite the high rate of interest they bore, bonds went to a heavy discount and the green back dollar at one time had a value of only 40 cents as compared with the gold dollar. As the war progressed, it became increasingly difficult for the Government to sell its bonds and during the year 1863, legislation was enacted which provided for the charter by the government of National banks which were given the privilege of issuing circulating notes against the security of United States bonds. At first the banks were allowed to issue notes only to the extent of 90 per cent of the face value of the bonds held, but later on when the bonds went to par or a premium, the law was changed so as to allow the banks to issue notes up to the face value of the bonds. These National banks notes were not made legal tender, but as the issuing banks were required to keep a redemption fund with the United States Treasury which also held the bonds against which the notes were issued, they circulated everywhere on a parity with the paper money issued by the Treasury itself. In 1866, Congress enacted a law imposing a tax of 10 per cent upon the circulation of state bank notes which forced their retirement.

The volume of National bank currency at the time of the outbreak of the World War was about 770 million dollars. These notes were issued by over 9,000 National banks throughout the United States, all against the security above described. The chief merit of the National Bank notes was that they were a National currency, worth as much 2,000 miles away as at the domicile of the issuing bank and that they were just as good, even though the bank had failed, as if the bank was solvent and doing business as usual, because the Government was back of them, and would redeem the notes out of proceeds of the sale of bonds held as security. National bank notes had one fatal defect, however, which is inherent in all bond-secured currency, that is, they were totally inelastic; they could not expand or contract in accordance with the demands of trade and commerce. They were a fixed quantity; and their volume depended primarily upon the supply and the price of United States bonds.

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When the United States 2 per cent bonds went to a premium and sold at 109 or 110 many banks found it more profitable to retire their notes, sell the bonds and take the premium.

There was a disastrous panic in 1893, and another in 1907. The 1893 panic was a Free Silver panic. The people were afraid that we were going on a silver basis. The 1907 panic was totally different in character. Under the Federal Reserve system that panic would not have occurred. The act of March 1900, had established firmly the gold standard, and in 1907, there were no fears as to the quality of our currency. The only trouble was, there was not enough currency.

The National Banks were absolutely unable to do anything towards relieving these stringent conditions by issuing new currency, because they had first to buy bonds. The United States government was not issuing any bonds, and the banks had no money to buy bonds with. If a bank had $100,000 in its vaults, it could do as much by lending that money as it could by exchanging that amount for Government bonds and issuing $100,000 of its own notes. The bonds bore only 2 per cent interest, while the note issues were taxed by the Government $\frac{1}{2}$ of 1 per cent and there was the cost of the plates, the cost of printing the currency, and the cost of shipping charges back and forth, so that all the profit there is in a National Bank note issue, is a commission of about $\frac{3}{8}$ of 1 per cent. Many of the larger banks, they have retired their circulation voluntarily, and the National Bank note circulation is now largely furnished by country banks, which see some local advertising value in having in circulation notes bearing the name of the bank, and the signatures of the President and Cashier.

The events of the year 1907 brought to the American people a realization that their banking system was defective . Under our currency system; we had experienced the major panics of 1837, 1857, and 1873; we also had a minor panic in 1884, another in 1890 at the time of the Baring trouble, a major panic in 1893, a very acute stringency in the fall of 1902, when call money went to 125 per cent on the New York Stock Exchange, and a major panic in 1907. Congress finally decided to do something. A monetary commission was appointed with Senator Aldrich of Rhode Island as Chairman. That Commission made an exhaustive study of the banking systems of the world. Part of the Commission came to Canada, to study your Canadian banking system, and there is a report on your Canadian banking system which forms one volume of the report, which included altogether some twelve or fifteen volumes. The Commissions studied also the systems of England, Germany, France, Holland and Italy. The report of the Commission is probably the most elaborate report upon banking conditions in the world that had ever been made.

By Mr. Ladner:

Q. May I ask, what is the title of that report?—A. It is the Report of the National Monetary Commission.

It was realized that it would never do to make such a radical change in our banking system as would impair the usefulness of the banks we already had. It was realized furthermore that a good deal of time was going to be necessary to develop a well-adjusted and well-thought out banking system—as there were so many various ideas concerning what should be done. There was devised therefore a temporary or emergency measure, in order to tide over any situation which might arise until a permanent measure could be enacted. A Bill was enacted known as the Aldrich-Vreeland Act. Mr. Vreeland was the Chairman of the House Committee. The Aldrich-Vreeland Act, provided for the establishment of National Currency Associations, to be organized by groups of National Banks, not less than ten in number, and having a fixed minimum of capital. Through these associations banks were permitted to issue emergency currency identical in form with the United States National Bank notes. I may

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say that there was a slight change at the time the Act was passed in the wording of the National Bank note. In the early National Bank notes we find these words, "Secured by bonds of the United States deposited with the United States Treasurer". With the passing of the Aldrich-Vreeland Act that language was changed to read, "secured by deposit of United States bonds or other securities with the United States Treasurer". After the Aldrich-Vreeland Act expired by limitation, this language was changed back to its original form. No use was ever made of the Aldrich-Vreeland Act until the outbreak of the World War in 1914. A number of National currency associations had been organized in various parts of the country in order to be ready in case there should be any great monetary stringency. The law originally limited the operation of the Act to June 30, 1914, but the Federal Reserve Act extended this period to June 30, 1915. This was a wise proceeding for, while not a dollar of emergency currency had been issued up to June 30, 1914, the total circulation of these emergency notes during the crisis which followed the outbreak of the war amounted to about 386 million dollars, all of which was retired before the final expiration of the Aldrich-Vreeland Act on June 30, 1915.

The plan was that these National Currency Associations should meet to consider the collateral offered by the various members as security for their notes, and if the majority of the association approved of the securities, they would certify the same to the Treasury of the United States at Washington and they could receive National Bank notes which were identical in form to the National Bank notes issued in the regular way against the United States bonds.

This emergency currency was subject to a graduated tax, beginning I believe at 3 per cent for the first month, which tax increased progressively month by month until it reached 6 per cent thus becoming a prohibitive tax, in order to ensure its retirement.

I will go back, for a minute. Following the year of the report of the Monetary Commission, Senator Aldrich introduced a bill in the Senate of the United States, to establish the National Reserve Association of the United States. In brief, this was a Bill to establish a central bank in the United States, one single central bank, with branches. There were to be 45 directors, to be selected from various sections of the country. If I remember correctly it was designed to establish about forty branches. This bill was debated in Congress for about two years, but it was never put to a vote; there was strong opposition to it. A great many people were afraid of a central bank. They were afraid of the concentration of credit control; they did not like the idea of one group of men sitting as arbiters of the entire credit of the country. In the election of 1912, due mainly to a Republican split the Democrats came into power with Woodrow Wilson as President, with a Democratic majority in both Houses. Mr. Glass was appointed Chairman of the House Committee and Senator Owen Chairman of the Senate Committee. Each prepared Bills, which were afterwards merged into one Bill known as the Glass-Owen Bill, and that Bill finally passed both Houses of Congress and became law upon the signature of the President on the 23rd of December, 1913. This Act did not provide for a Central Bank. On the contrary it provided for the establishment of not less than eight and not more than 12 separate banks to be known as Federal Reserve Banks, to serve as many districts throughout the country, to be determined by a Federal Reserve Organization Committee composed of the Secretary of the Treasury, the Secretary of Agriculture, and the Comptroller of the Currency whose office, I presume is somewhat analogous to that of your Inspector-General of banks. They took a trip through the country, held hearings, and finally decided that they would divide the country into twelve Federal reserve districts. Those districts varied greatly in size. The Western district embraced nearly one-third of the territory of the United States; the New

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England District comprised the New England States only; the Philadelphia District only parts of Pennsylvania, and New Jersey and Delaware. Other districts of various sizes, were formed; The law provided that each Federal Reserve Bank was to have a capital of not less than $4,000,000, and as the capital was based upon the capital and surplus, as we call it, or rest or reserve, as it is called here, of the member banks, it was necessary in sparsely settled areas to include a great deal more territory in order to provide the necessary capital than was the case in the more densely populated districts of the east.

These twelve Federal Reserve banks are legally autonomous units. They have a charter from Congress, just as the National Banks have. They are under the supervision not of the Comptroller of the Currency, as the National Banks are, but of a central body, appointed by the President, and confirmed by the Senate, known as the Federal Reserve Board. The Federal Reserve Board has general supervision over the Federal Reserve banks, and functions as a co-ordinating agency, to harmonize their operations to standardize their policies and prevent any conflict between them. I have here, a copy of the Federal Reserve Act, which I shall leave with you, Mr. Chairman. It is not very lengthy. It defines the powers of the Federal Reserve Banks, also the powers of the Federal Reserve Board. I will read very briefly from it. The Federal Reserve banks at first had succession for a period of twenty years, until last year, when some additional banking legislation was passed in Congress, extending the powers of National Banks in order to enable them better to meet the competition of the State banks and trust companies. The charters of the Federal Reserve Banks were extended, so that they now have indeterminate charters. They have succession until their charters are revoked by Congress or are forfeited for violation of the law; in other words, the Federal Reserve Banks will continue indefinitely unless they violate the law or lose public confidence. They have power to make contracts, to sue and be sued, their operations are conducted under the supervision and control of their boards of directors who have all powers granted pursuant to the provisions of the Act, and such incidental powers as usually appertain to the office of directors of banking associations.

> Said Board shall administer the affairs of said Bank fairly and impartially and without discrimination, in favour of or against any member bank or banks, and shall, subject to the provisions of law and the orders of the Federal Reserve Board, extend to each member bank such discounts, advancements and accommodations as may be safely and reasonably made with due regard for the claims and demands of other member banks.

The United States government does not own one dollar of stock in any Federal reserve bank although the law provides that, in the event of liquidation, any surplus remaining after all obligations and claims have been fully met shall revert to the United States. Whenever these banks are spoken of as government banks, and they are frequently so called in the United States, an incorrect idea is conveyed. While they are required to act as fiscal agents of the Treasury and perform the functions formerly exercised by the sub-treasuries which were abolished in 1919, they are not in a legal sense government banks. They are exempt from taxation in any form except local taxes on real estate owned by them, and the officers and clerks of the Federal reserve banks are not government officials or employees. The Directors are nine in number for each bank. The stockholders, that is the member banks, choose six of these directors; the Government through the Federal Reserve Board, appoints three. The directors are divided into 3 classes, A. B. and C. When they vote for directors the member banks are divided by the Federal Reserve Board into three groups; the larger banks having approximately the same amount of capital, form the first group; they choose some bank officer who is representative of that group

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The middle-sized banks forming the second group, elect one of their number as their director, and the small banks, forming the third group, elect their own representative. So that, on the Board of Directors of every Federal Reserve Bank, we have a big banker, a middle-sized banker, and a small banker.

Then we have what are known as Class B directors. Class B directors must be actively engaged in Commerce, Industry or Agriculture. They may hold stock in member banks, but they are not allowed to be directors of member banks, and they are elected in the same way, by groups one, two, and three, the large sized, the middle sized and the small sized banks. So we have three bankers and three business men on each Board of Directors.

Then we have Class C directors. These class C directors are appointed by the Federal Reserve Board. They are not permitted to be officers, directors, or stockholders in any bank; they must have nothing whatever to do with the banking business; they must keep outside the banks. But they are in the minority, you see. Each bank is controlled by its directors, and the member banks appoint six out of the nine.

Then these directors elect their own officers, just as the chartered banks do. The Federal Reserve Board takes one of its own appointees, a class C director, and names him as Federal Reserve Agent and Chairman of the Board of Directors. He presides at Board meetings. He represents the Board as its agent on the spot, and he supervises the note issues. All applications for Federal Reserve Notes must come through him, and when the security called for by the law is given, he issues the notes to the bank.

The duties and powers of the Federal Reserve Board have been very much misunderstood. True, it is a banking board, it is a supervisory body, but it is in no sense a bank. The Federal Reserve Board has no power to lend anybody five cents; it has no power to require any bank to take a piece of paper which, in the bank's judgment, is not good. The Federal Reserve Board can define eligible paper. I will read you a few of the powers of the Federal Reserve Board, which will be found at page 21 of the Federal Reserve Act.

> 11. The Federal Reserve Board shall be authorized and enpowered:
>
> (*a*) To examine at its discretion the accounts, books and affairs of each Federal Reserve bank and of each member bank.

They have a corps of examiners or inspectors, who go to each Reserve bank, and branch and make at least one examination a year.

> (*b*) To permit, or, on the affirmative vote of at least five members of the Reserve Board to require Federal Reserve banks to rediscount the discount paper of other Federal reserve banks at rates of interest to be fixed by the Federal Reserve Board.

That was a very important function in 1919 and 1920, because the reserves of some of the banks would have been very seriously impaired, and in one or two cases, wiped out altogether, but for the ability of those banks to discount with paper of other Reserve banks which had reserves in excess of the legal minimum.

> (*c*) To suspend for a period not exceeding thirty days and from time to time to renew such suspension for periods not exceeding fifteen days, any reserve requirements specified in this Act:

That was never done. It might have been dangerous, a published statement showing reserves below the legal. If you attempt to go below these reserves, your minimum would have been likely to create alarm. We managed by having some Reserve banks rediscount paper for others to keep the legal reserve intact, even during the tightest pinch.

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The Federal Reserve Board can remove or suspend any director of the Federal Reserve banks for cause, and it exercises general supervision over Federal Reserve Banks. In section 16, there is a very important function of the Federal Reserve Board. It is Section 13 I should say. It relates to the rediscounting function.

> Upon the indorsement of any of its member banks, which shall be deemed a waiver of demand, notice and protest, by such bank, as to its own indorsement exclusively, any Federal reserve bank may discount notes, drafts, and bills of exchange, arising out of actual commercial transactions; that is, notes, drafts, and bills of exchange issued or drawn for agricultural, industrial, or commercial purposes, or the proceeds of which have been used, or are to be used, for such purposes, the Federal Reserve Board to have the right to determine or define the character of the paper thus eligible for discount, within the meaning of this Act.

The Board issues its regulations elaborating upon the Act, and no Federal Reserve Bank can discount any paper, which, under the regulations of the Board, is ineligible; but, on the other hand, it is not obliged to discount paper which though technically eligible, if in its opinion, the paper is doubtful or not good. Now, while the endorsement of the member bank is required, it is the policy of the Federal Reserve Banks, as understood and approved by the Board, that each paper should stand on its own bottom. In other words, we must not take paper technically eligible, but of doubtful goodness and rely solely on the endorsement of the member bank. In amounts exceeding $5,000 we must have a statement from the maker of the paper and he has to have a satisfactory enough showing to justify taking the paper without the member banks' endorsement.

As to time limit. Notes and drafts and bills admitted to discount under the terms of this paragraph, must have a maturity at the time of the discount of not more than 90 days exclusive of grace. An exception was made in the case of agricultural paper. In the original Act, the time limit on agricultural paper was six months and that was afterwards extended to nine months; so that, agricultural paper may be discounted by the Federal Reserve Bank if it has a maturity even as long as nine months; but all other paper must be limited to ninety days.

Now, the Federal Reserve Board, as I pointed out, cannot make any loans itself nor can it compel any Federal Reserve Bank to make a specific loan. The Federal Reserve Banks fix their own rates of discount, which are effective, however, only upon "review and determination" of the Federal Reserve Board. A question arose last September as to whether or not the Federal Reserve Board, under its powers of Review and determination could change the rate of discount of a bank which is unwilling to change it itself. The Federal Reserve Bank of Chicago, had a four per cent rate. All the other banks at that time had a three and a half per cent rate, and the Federal Reserve Board passed a resolution fixing the Chicago rate at three and a half per cent. That created a considerable disturbance, and the Governor of the Board—Mr. Crissinger—resigned, although he said that episode had nothing to do with his resignation, and the President appointed Mr. Young, who was Governor of the Minneapolis Reserve Bank, to succeed him. I do not think that a similar situation will occur again. The law provides that each Federal Reserve Bank by its Board of Directors, shall establish from time to time rates of discount for each class of eligible paper, subject to the revision and determination of the Federal Reserve Board; so that the practice, with that single exception, has been that the directors of the bank take the initiative if they want to change the rate. If the Federal Reserve Board does not approve, the old rate holds. If the Federal Reserve Board does approve,

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the new rate comes into effect. There is no monopoly or centralization of credit, and to guard against this Congress gave us twelve banks instead of one central bank. Our legislators were afraid of the concentration of credit. They were perfectly willing to prescribe, in a broad way, the qualities which must be possessed by eligible paper and leave the Federal Reserve Board with authority to elaborate upon that somewhat and define them more specifically; but they were not willing to give the Federal Reserve Board the power of saying to a bank "you must take this piece of paper or you shall not take this piece of paper," assuming that the paper is eligible under the law. That power is vested exclusively in the Federal Reserve Banks, and they in turn, delegate it to their responsible officers as authorized by law to do.

By Mr. Ladner:

Q. Could any of the Federal reserve banks have different rates?—A. Yes, it frequently happens that they have different rates; but it is rather hard to maintain different rates for a very long period at a time. For instance, if we have a four per cent rate in New York, Boston and Philadelphia, the eastern centres, and the Reserve Banks should try to maintain a four and a half per cent rate in the South and West, people there are apt to become restive. They might say, you have low rates in these centres where there are large stock-market transactions, and in our agricultural districts, we have a higher rate; and they clamour for the lower rate. The result is that they usually get the same rate as the East. New York is the principal money market of the country, and the rate of the New York bank is the key rate. That is the only rate which has an effect internationally. Or, it may not be the only one, but it has a greater influence, I should say; a much greater international effect than any other rate. And you will find that whenever New York changes its rates, especially downward, there is a disposition to follow in other sections of the country. It would be impossible for Boston, for instance, to maintain a lower rate than New York. For if New York had a four per cent rate and we undertook to have a three and a half per cent rate in Boston, we would soon have our reserves reduced, because a great many manufacturing and mercantile concerns, which have banking connections both in Boston and New York, would transfer their borrowings from New York over to Boston, and the banks in Boston would have to rediscount with us, and we would soon be out of reserve. But we might in Boston maintain a higher rate than New York, and we did so once for a period of six months. Back in 1925, I think, New York for a while had a three per cent rate, and we maintained a three and a half per cent rate. That caused us no inconvenience, but we could not work it the other way round.

However, the control of the Federal reserve banks over the money market does not come so much through the discount rate as it does through the open market transactions which are authorized under Section 14 of the Federal reserve Act. The discount rate of the Federal Reserve Bank, after all, is a negligible quantity in most sections. Take these various sections in the South and West that get restive whenever their Federal Reserve Banks have a higher rate than the New York rate. That does not mean very much to the farmer or merchant in those sections. He cannot get accommodation direct from the Federal reserve banks, he has still to go to the bank he deals with. And those banks often charge what the traffic will bear. They charge whatever the law allows them to charge—that is one consideration—and whatever the competition they have allow them to charge. Now, the legal rate of interest in most of the States is from six to eight per cent. In my native State of Alabama the legal rate is eight per cent.

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By Mr. Woodsworth:

Q. Is that invariable, that legal rate?—A. Yes, but in Alabama there is a heavy penalty for usury. Forfeiture of all interest and a penalty besides.

Q. Broadly speaking, the eight per cent is invariable, you say?—A. Yes, except in cases where the rate is reduced as a result of competition. In a number of the western States, they have legal rates of eight per cent, and, contract rates of ten to twelve per cent are permitted. A certain western state in the Kansas City Reserve district has a ten per cent contract rate; and in 1921, there was a demand that the discount rate of the Reserve Bank be reduced from 6 per cent to 5 per cent, although the Reserve banks of Chicago, New York and Boston all had a 6 per cent rate at that time. They claimed that such a reduction would give borrowers cheaper money. In rediscounting paper, member banks are required to state on their applications the rate charged the borrower. In a study we made, covering a week's operations at the branch bank in the city where all business in the state under discussion is handled, we found that two loans had been made at six per cent. Those loans were to large concerns which had lines of credit open in New York and Chicago. We found that there was one loan made at seven per cent; four or five loans made at eight per cent, but the great majority of loans were made at ten per cent. In other words, the small people who had no credit, except locally, borrowed from their local banks and these banks charged them all the law permitted them to charge.

By Mr. Ladner:

Q. What year was that?—A. 1921. So the banks were lending money at ten per cent, and rediscounting with the Federal Reserve Bank, and the rate then was six per cent. We found that a mere reduction in the discount rate, in a great many sections of the United States has no effect whatever upon the rate the banks will charge their local customers; it is effective mainly in the centres. And there is another thing. There is a theory which was prevalent at one time, that the bank rate should always be somewhat above the current rate. Now, that is a confusing thought. It is true in London, that the bank rate is higher than the bill rate. The Bank of England's official rate to-day is four and a half per cent; but this does not mean that all its transactions are at that rate. That is merely the minimum rate at which the Bank of England will buy bills of exchange. The joint stock banks in England do not rediscount with the Bank of England, as the American banks rediscount with the Federal reserve banks. Joint stock banks in England, when they need money, will take prime bills of exchange to the Bank of England and sell them to the bank, and its official rate of four and a half per cent is the rate at which the Bank of England will buy prime bills to-day.

By Mr. Ladner:

Q. Is that an out and out sale, without liability on the part of the Bank?—A. I understand that is an out and out sale.

The CHAIRMAN: I will ask the members of the Committee to allow Mr. Harding to follow his trend of thought and then, when he has concluded his statement, there will be time for questions. We do not want to take you off your "line," Mr. Harding.

WITNESS: I am nearly through my story.

As I have stated, the Federal Reserve rate in New York and Boston to-day —and in fact I believe, in all the Federal reserve banks the rate is now uniform —is four per cent. Well, I know that in Alabama, for instance, the current rate for reputable concerns, unless they have outside connections in New York or Chicago, or other large centres is six per cent, and I think that five per cent

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is the minimum rate at which any bank down there will take any paper, although their Federal Reserve rate is four per cent. In Boston and New York, the rates for prime mercantile paper are from four and a quarter to four and a half per cent. In other words, the going rate for money even to the best customers is always a little above the rediscount rate of the Federal Reserve Bank, but that does not apply to the bill rate. The Federal Reserve Bank rate is related directly to the bill market. A bill of exchange, a banker's acceptance, is the highest grade of commercial paper obtainable. It is high grade for this reason. What we call a prime bill, in the first place, represents a transaction where the seller has sold goods to a reputable purchaser. The bills are drawn anywhere from thirty days to six months' time. This purchaser has made satisfactory arrangements, either by the deposit of collateral, or by the filing of a satisfactory statement, with some strong bank or acceptance house, and that bank or house has put its name on the bill as acceptor. In other words, it obligates itself to pay that bill at its maturity, and then in addition, the bill carries the responsibility of the drawer and of the endorser. So, we have a liquid paper; a paper that in all human probability is going to be paid at maturity; representing the consumption of goods; taking them out of the market entirely; not a speculative proposition at all. And, when it is a banker's acceptance of the highest grade, it commands of course, the lowest rate in the market.

The market for prime bills depends upon the supply of bills in the first place, and upon the general tone of the money market, in the second place. There have been times when prime bills would sell at two and one quarter per cent—the rates now are $3\frac{1}{4}$ to $3\frac{3}{4}$ according to maturity—and of course, the drawer who gets a bank to accept for him, has to pay the bank a commission. But, assuming that the commission is one-quarter of one per cent for each ninety days, or 1 per cent a year, you can see that the drawer of the bill gets very cheap money; but the transaction must be bona fide, and the acceptor must be of unquestioned standing. Now, the bank rate is in order for the bill to be prime related closely to the bill rate, and we keep our bank rate a little above the market rate for prime bills of exchange, just as in the case of the Bank of England. But, the current rate for money to borrowers even in the financial centres is usually a little above the Federal Reserve Bank rate.

The Federal Reserve system was never able to function normally, until about five years ago. It was organized on August 10th, 1914, when the Federal Reserve Board took office. The Federal Reserve Banks were not opened until November 16, 1914. We were in a very chaotic condition, owing to the breaking out of the world war. Our stock exchanges were forced to close. The cotton and grain exchanges were closed. There was much congestion at the ports because of inability to get shipping. The German raiders were still on the sea, many merchant ships were tied up, and insurance rates were very high. Of course, the wheat situation was unlocked first, because people are obliged to have something to eat before they think about what they are going to wear. The cotton situation was very bad. There was great distress in the cotton growing regions in 1914. There was no organized market for cotton. No one knew what the price of cotton was and spasmodic sales were made at from 4 to 6 cents per pound, while the price had been above twelve cents before the war broke out. In 1915, things began to adjust themselves.

The Federal Reserve Banks are obliged to pay their stockholders six per cent cumulative dividends and I want to speak now of the stockholders and of what they do. The law provided that every National bank must become a stockholder, and member of the Federal Reserve Bank within twelve months, or else forfeit its charter. So, they were forced into the system. The law also provided that the State banks and Trust companies, over which Congress has

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no direct control, because they are creatures of the States, and not of the national Government, might become members of the system if they met certain specified requirements, but it was purely voluntary with them. But, no way was provided for a State bank to withdraw from the system after it once became a member. So that although there were over 15,000 State banks, and Trust companies, in the United States, only 65 of them up to June, 1917, had become members of the Federal Reserve system. The held back. They would say, "we do not know enough about this experiment." Some of them thought pretty well of it, but they did not like to get into a place from which they could not get out; and it was not until the United States entered the war and not until Congress amended the Act by providing that State banks might withdraw on six months' notice, that they came in; and even then, only a comparatively small number, I think about 1,600 or 1,700 State banks and Trust companies are members of the system but in this number are included most of the larger institutions.

The capital stock of the Federal Reserve Bank is a variable quantity. Each member bank must subscribe for stock in the Federal Reserve Bank of its district to the amount of six per cent of its capital and surplus or rest, of which three per cent must be paid in and the other three per cent is subject to the call of the Federal Reserve Board. The Board has never called for the payment of this three per cent and I do not think it ever will. When a bank increases its surplus, it must subscribe for a proportionate additional amount in Federal Reserve Bank stock; it must increase its holdings there. And whenever a bank goes into liquidation, it must return its stock, receiving the cash plus the accrued dividend. At first only one bank, the Federal Reserve Bank of Richmond had sufficient borrowings to enable it to have sufficient earnings to pay a dividend. The banks were in arrears. They had dividends piling up, which had not been paid, and it was not until 1918, a year after we went into the war that all the banks had accumulated sufficient earnings to enable them to take up their back dividends.

There has always been a question in my mind as to what the development of the Federal Reserve system would have been if we had not gone into the war, because the war changed the whole situation. We had the First Liberty Bond issue, and then the second, third and fourth, and the Victory Loan issue The national debt of the United States on April 2nd, 1917, was in round numbers, $1,000,000,000, on August 1st, 1919, the national debt of the United States stood at over $26,500,000,000, an increase of over $25,000,000,000 in a year and a half. That meant enormous expansion or inflation. We maintained the gold standard. Our Federal Reserve notes were always at a parity with gold, but the Federal Reserve System was obliged to adapt its policies to the needs of the Treasury. The Treasury policy was to finance the war one-third by taxation, and two-thirds by bond issues, and in order to float these tremendous bond issues the Federal Reserve Banks became great bond-selling organizations. The Governor of each Federal Reserve Bank was the organizer in his own district, and the member and non-member banks became large buyers of bonds, and urged their customers to buy bonds, and were encouraged to make loans on bonds and to rediscount with the Federal Reserve Banks. The Treasury fixed the rate of interest on the bonds low in order to save money, and it was necessary that the Federal Reserve Banks should fix their discount rates at a correspondingly low figure. The Reserve bank rate was much lower than if it had been considered from an economic standpoint, but in war time, one cannot stress economy or economics. War itself is the most uneconomic of all processes. We were in the fight and we were going to muddle through with it, so, we maintained a low rate, say, four per cent interest, all during the war, and during the Victory Loan period when the Treasury had to float

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$4,500,000,000 in May, 1919, to take up the odds and ends of the war expense; and that was a very difficult loan to float, because during the war we had the patriotic impulse, we could talk about "swatting the Kaiser" and that sort of thing, but after the war, that impulse was all gone. It was simply a cold proposition and people could buy the war issues at a discount, and yet were called upon to buy these new bonds at par, which was a pretty hard proposition. But the Victory Loan was put over, and put over with the help of the Federal Reserve system by maintaining artificially low discount rates. Of course, the thing came to plague us later on, but we had to consider one thing at a time. I was going to say that nowadays the Federal Reserve system can function normally; all these matters have been gone through with; we have passed through the post-war reaction, which was world-wide, it was not confined to the United States. They felt it in Japan with their silk panic. You felt it here in Canada. So did the people in France, Great Britain, and all over the world. It was a natural reaction. One thing that happened in 1919 was that our exports to Europe kept up in great volume. Their necessities were very great, and they still had available two and a half billion dollars of the credits that Congress voted them early in the war, so that America financed her exports in 1919 largely out of her own Treasury. That is, we lifted ourselves by our own boot straps. Thus the crisis came in 1920 instead of 1919. Now, beginning with the year 1923, things began to get normal, and the money market came more under the control of the Federal Reserve system—and when I speak of the Federal Reserve system, I mean the twelve Federal Reserve Banks, and the Federal Reserve Board; these together form the Federal reserve system. The banks have to consult the Board about their policies, and the Board consults the banks about its policies, and the Board depends entirely upon the banks to execute the policies agreed on. In 1923, the Board appointed a Committee known as the Open Market Committee, composed of the Governors of the Federal Reserve Banks of New York, Boston, Philadelphia, Cleveland and Chicago. The board chose those cities partly because the larger volumes of open market transactions are made in those cities, and particularly because they are all geographically located so that the committee can get together after a night's ride. The Committee at certain intervals meets at Washington with the Federal Reserve Board to consider the situation, and to outline a policy for say, two months ahead. A broad outline of policy would be: The Bill market has to be taken care of. The Federal Reserve Banks are always ready to buy or sell bills. They are the mainstay of the bill market. They do not play with the bill market with a view of influencing the general money market. Such influence is exercised through purchases and sales of short time government obligations. The United States Government is constantly exchanging short-time certificates for long-term bonds. It is constantly reducing its indebtedness, and in its funding operations, the Treasury finds it convenient to have outstanding a large amount in short time obligations maturing in three, six, nine and twelve months; so we have always available at frequent intervals a supply of United States Treasury certificates. The rates of interest have varied from three per cent to three and a half per cent in recent years. The open market committee acts for all twelve Federal Reserve Banks and purchases which are made are allocated pro rata on the basis of their capital and surplus among all the twelve Federal Reserve Banks; and the sales are allocated in the same way, out of the securities held subject to order of the Committee by the Federal Reserve Banks. It has been the policy of the Committee to have a stock of short-time obligations on hand amounting to a minimum of say one hundred and fifty to a hundred million dollars, and a maximum of five hundred to five hundred and fifty million dollars. There are times when the Committee neither buys nor sells; they let the money market rock along. A very interesting situation came up in

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1927. A considerable outward movement of gold took place and whenever gold is shipped out of the country, it affects the money market more or less, because although the gold comes out of the Federal Reserve Bank, it comes out of the bank by means of a cheque drawn on some member bank, and the member bank draws on the Federal Reserve Bank. I may say incidentally, that the reason the Federal Reserve system has the control and custody of gold in the United States held outside of the Treasury is that gold does not count as any part of the legal reserve of a member bank. A member bank is required to carry its legal reserve in the form of a collected balance with its Federal Reserve Bank. Any money it keeps in its own vaults is merely till money and this cannot count as a reserve no matter whether it be gold coin, gold certificates, national bank notes, Federal reserve notes, legal tender notes, or silver; so that in order to count as legal reserve, gold must go to the Federal Reserve Bank. So you see that all gold imports eventually come to the Federal Reserve Banks. During times of large gold importations, the Federal Reserve Banks check redundancy by paying out gold certificates, instead of Federal Reserve notes. Five years ago the Boston bank, for instance, had outstanding about two hundred and thirty-five million dollars of Federal reserve notes; to-day it has one hundred and fifteen million dollars' of Federal reserve notes outstanding, the reason being that we have had so much surplus gold coming in, that we deemed it advisable to put gold certificates in circulation and to reduce our Federal Reserve note circulation. If we should have occasion to reverse this process, all we would have to do would be to put aside gold certificates as they come in, and pay out Federal Reserve notes.

About the 1st last July, the Committee had a meeting in Washington, and discussed the situation. Our crop movement begins in the latter part of July, or early in August; the grain begins to move, followed by cotton. The money market had begun to show some symptoms of hardening. We began to buy Treasury certificates, thus taking money out of the Federal Reserve Banks and putting it in the market. This eased the market situation. Later on, there was a very pronounced gold export movement. Gold went to France, it went to South America, to Brazil and the Argentine, and elsewhere. Altogether we lost from the 1st of October to the 1st of January, about $200,000,000 in gold, which left the country. Some of it came to Canada. You probably have returned it to us by this time, but during your crop moving period our shipments of gold from New York to Canada were about $30,000,000. To prevent the money market from feeling the effect of these large exports of gold and to avoid the necessity of advancing Federal Reserve Bank rediscount rates with the repercussions abroad which might follow such action, and to facilitate the exports of our surplus crops, the Federal Reserve System decided upon a policy which would keep money easy in the United States in the face of these abnormally heavy movements of gold out of the country. As gold was shipped out, we would buy treasury certificates and thus put back in the market, the money that had been taken out of it because of the gold shipments.

After the 1st of January, there is always a return flow of currency from the agricultural sections, and very often at this period money becomes redundant in the financial centres. In January therefore the Reserve Banks began to sell Government securities, and during January and February, they sold $150,000,000 of Treasury certificates, which they had previously accumulated thereby taking out of the market that amount of money. The foregoing is a brief outline of the open market policy.

The Federal Reserve System does not attempt to fix commodity prices. Some economists believe that it could and should stabilize the general price level, and that its policies should be shaped with this end in view. Other economists think differently. In my opinion the Federal Reserve Banks can be helpful and have been helpful in stabilizing the price level by stabilizing

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the money market. In so far as the money market is a factor in the price of goods, a stable money market exerts a stabilizing influence on prices. But there are many things besides the cost of credit or the price of money that enter into the prices of commodities. We cannot get around the very old law of supply and demand. If both the United States and Canada should produce an abnormally heavy crop of wheat; and the corn states should produce a light crop of corn, you would see low prices for wheat and high prices for corn irrespective of any Federal Reserve policy. Banks cannot boost the price of one great staple commodity and reduce the price of another, regardless of the plethora of one or the shortage of the other.

Again, the operation of the tariffs of a country cuts a big figure in prices. Take the case of sugar in the United States; for instance, sugar grown in Porto Rico and Hawaii comes in free of duty and the producers can get better than $4\frac{1}{2}$ cents a pound for that raw sugar, while in the case of Cuba, there is a duty of $1\frac{8}{10}$ of a cent per pound on sugar, and Cuban producers have to be satisfied with about $2\frac{3}{4}$ cents per pound. There are a great many things beyond the purview of banking which cut a very decided figure in establishing prices. All a banking system can do is to bend its efforts towards stabilizing the money market, so that in so far as money is a factor the price level will not be disturbed.

I think that is all I have to say, Mr. Chairman.

The CHAIRMAN: Mr. Harding is willing and anxious I assume to answer any questions he can which will be helpful to the Committee.

By Mr. Ladner:

Q. I gather from your remarks, Mr. Harding, that on the open market they buy and sell bills or acceptances. But that is not with the general public; you do not go beyond your member banks do you?—A. Yes, we buy acceptances from brokers who are non-members.

Q. In other words in these sections where they were charging 10 and 12 per cent interest, I had the impression that the Federal Reserve Bank had power to go into a district like that and ease the rate on money by their open market operations?—A. No, it is impossible, because they do not have any acceptances there in ordinary transactions.

Q. Is it possible for the Federal Reserve Bank to control that?—A. That same question was asked at Washington about a year ago. I am glad you brought it up. You are talking about the low rates at which a prime banker's bill can be sold. One man said he lived in the State of Iowa and had occasion to send stuff to Kansas City and that when he would get his provision broker there to accept a draft for him at 60 days, nobody had ever offered to buy that draft from him at 3 per cent; the best he could do was to take it to a local bank at Kansas City, and discount it at 6 per cent. He thought that was unfair. But this is merely a matter of the quality of the Bill. Take a Bill against an International shipment where it is accepted by some well-known bank or acceptance house with millions of dollars back of it and where you know that if you need money at any time, you can sell the bill to somebody else, because there is a broad demand for it on account of the name being well known, it would naturally command a lower rate of discount than a purely local bill accepted by somebody in Kansas City with a rating at about $10,000, and not known outside of his own town. There is a narrow market for one and a broad market for the other. You can go to any of the banks in Canada and if you have a Bill of Exchange payable in 60 days accepted by the National City Bank of New York for instance, I think the bank will make you a very low rate; but if, on the other hand you go there with an acceptance made by Jim Jones, of Kansas City, whom they had never heard of, and when they look in the Rating book they find him rated at about $10,000, I do not think they would give you a comparable rate if they bought it at all.

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Q. A Federal Reserve Bank, even in open market operations, deals only with member banks?—A. No, the Reserve banks deal very largely with bill brokers, and opportunities to deal with those not interested in the bill market are rare. Boston is our next largest bill market in the country outside of New York, and we deal with National Banks and Trust Companies there, member banks. We deal also with a number of corporations and firms which are not member banks.

By the Chairman:

Q. These are all well-known financial concerns?—A. All well-known financial concerns. The market is open to anybody who wants to come. We require a statement from these people in order to know something about their responsibility. We would not deal with anybody without a statement.

By Mr. Ladner:

Q. In the borrowings from the Federal Reserve Bank System, do you have a periodical settlement—that is the first question—where the member banks clean up their accounts, or is it wise to have continuous borrowings?—A. We discourage continuous borrowings. We tell all our member banks that they must not abuse the facilities of the Federal Reserve System. We do not want them to discount with us at 4 per cent in order to lend money at 6 per cent, or to put money on exchange collateral on call, or anything of that sort, and if there is a tendency to abuse it, we raise our rate.

Q. That is an important point. I was going to ask you why you did discourage it, and what means you have of discouraging it?—A. The Federal Reserve System is a reserve system. If we let it come into ordinary every day use or undertake to compete with our member banks, and all the time be stretched out to the limit, what are we going to do when an emergency arises? We are Reserve banks—not commercial banks.

By Mr. Hanson:

Q. The primary purpose was to provide an elastic currency system?—A. I will read you the caption or short title of the Act. It is called, "An Act to provide for the establishment of Federal Reserve banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States," and so forth.

By Sir George Perley:

Q. Mr. Harding, you said the lowest rate for prime bills that you know of was about $3\frac{1}{4}$ per cent. I would like to ask you, in your experience what is the maximum rate?—A. You misunderstood me. The lowest current rate on prime bills is about $3\frac{1}{4}$ but it has been as low as $2\frac{1}{4}$ some years ago.

Q. What is the smaller maximum in the last few years?—A. The Federal Reserve Board gives what we call a spread. We are authorized to make these purchases now at from $2\frac{1}{2}$ to $4\frac{1}{2}$ per cent, that is a spread of 2 per cent. I believe the maximum rate that we ever charged on a prime 30 day bill back during the time of stringent money, was $4\frac{1}{2}$ per cent.

You can see the market itself puts a limit upon the bill rate, because when you consider the commission a man has to pay a bank accepting for him, if the rate at which he can sell the bill gets too high and he has to add the commission, it might pay him better to make a straight borrowing.

By Mr. Ladner:

Q. At what date or how frequently is the Federal Reserve Bank change made?—A. The Federal Reserve rate is considered at every meeting of the Board of Directors. On an average I supposed it is changed—looking back over a period of five years, I should say the average has been about once every nine

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months. Our reserve percentage has very little to do with the rate. It is simply the trend of borrowing, the member banks' borrowings and the general course of the money market; in other words, the bill market is a criterion.

Q. Are you familiar with the operations of our Bank Act of 1914 in the matter of re-discounting?—A. Just in a general way. There is just one other statement I would like to bring out here, about the Federal Reserve System. It has been very much misunderstood in the United States. It served the country well during the war and it is admitted that the Government would have been unable to maintain the gold standard without it. It would have been obliged to resort to fiat money as it did during the Civil War. Some people in the United States and outside have an idea that the Federal Reserve System has supernatural powers. It is purely a banking system and deals with banks instead of with the general public. The Federal reserve banks do not make loans direct to individuals, firms or corporations. This business is transacted by the commercial banks just as it was before the Federal Reserve System was established. The Federal reserve banks merely rediscount eligible paper for the member banks. The Federal Reserve Board has no legislative powers and its regulations must conform to the requirements of the Federal Reserve Act. Many people have an idea that the Federal Reserve System can prevent commercial and banking failures and that it can provide employment for everybody. Federal reserve banks have no psychic powers which enable them to change human nature, they cannot make the rash cautious nor the foolish wise. In other words, it is impossible to legislate sense and prudence into a man, a good banker is going to take care of himself and an incompetent banker is going to get into trouble no matter on which side of the international boundary line he lives. As a matter of fact, there have been more bank failures in the United States during the past five or six years than in any comparable period in the history of the country. I have here the report for the year 1927 of the Federal Reserve Board, from which I shall quote some figures.

By Mr. Hanson:

Q. Before going on with the question regarding the Finance Act of Canada, I would like to ask you if your change of discount rate ever reflects a change in the rate of discount made by the Bank of England from time to time, or is there any connection between the two? Has one any reflex action upon the other?—A. Well, I should think that probably our rate in the United States has now more effect upon the Bank of England than the rate of the Bank of England has on us. I do not want to be quoted as expressing this opinion, but I would like to quote what the Governor of another Federal Reserve Bank said recently.

By Mr. Matthews:

Q. They are both based upon world-wide conditions?—A. Both based upon world-wide conditions. As I have tried to point out, our export trade is of very great importance to the United States, and whatever is of importance to agriculture for instance in United States, is equally important to Canada because we are both in the same boat to some extent. Any financial crisis in England or a very high bank rate there, would be the worst thing that could happen to our export trade. I think we are agreed upon that. It has been said that when the New York bank reduced its rate from 4 per cent to 3½ per cent—I am merely saying what has been stated by others—that the reduction was made in order to enable the Bank of England to protect its own reserves without being forced to raise its discount rates; in other words, it was felt that a spread of at least 1 per cent was necessary to enable the Bank of England to protect its gold reserves.

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Q. And maintain the gold standard?—A. And maintain the gold standard. I know it did have this result, and you can quote me in this; the Bank of England had a $4\frac{1}{2}$ per cent rate, while our Federal Banks in the United States had a $3\frac{1}{2}$ per cent rate. This differential was reflected in the bill market. Before the establishment of the Federal Reserve Act, every time a shipment of grain went out of Canada or the United States, it had to be financed in London. The Federal Reserve Act allowed the American banks to accept, and we have developed an important acceptance market. Until last year, we never went over $700,000,000 of American bills; that was the maximum amount outstanding at any one time. Due to the spread or difference in the rate between New York and Boston and London, and to the natural desire of people to do their financing where money is cheapest, American bills attained a volume last fall during the crop movement, of over one billion dollars, an increase of three hundred millions, which presumably reflects the measure of relief to the English market. In other words, we took that much pressure off the London market and assumed it ourselves.

By the Chairman:

Q. Will you complete what you were going to say about the bank failures? —A. I will quote from the Federal Reserve Board report, which is just out.

By Sir Henry Drayton:

Q. Did you finish what you were going to tell us about the bank failures? —A. I am going into that now. In addition to the failures, there has been a very marked tendency in recent years in the United States towards mergers and consolidations. It was noticeable first in the matter of the railroads. Fifty years ago we had a great many independent short lines in the United States running from 50 miles up to 300 miles in length. I remember the first time I went to Washington from my home in Alabama. I rode 150 miles, changed cars at Chatanooga, waited there a few hours, then took another train on another railway and rode 200 miles to Bristol, Tennessee, where I had another wait and another change of cars; then I rode 200 miles more from Bristol, Tennessee, to Lynchburg, Virginia, on another road, where I had another change of cars to still another road; I then rode about 125 miles to Washington, where I took a train for New York. That made three changes of cars between my home town in Alabama and Washington, whereas now I can take a sleeping car at my old home and get out of it in New York without any changes. Congress has before it now the Parker Bill, which seeks to force the consolidation of railroads still farther, the idea being to have about 20 independent railways in the United States, so as to equalize earnings and get down to a more consolidated system.

The same thing has been going on in the banking field. The State of Illinois does not allow branch banks. The majority of States do allow branch banks. California is pretty strong on it; you have heard of the Bank of Italy of California. Recently there have been several mergers in New York, Philadelphia, and other cities. Public sentiment in the United States is rather divided on the branch banking question. Twenty years ago there was almost an unanimous sentiment against branch banking but there has been a strong shift of opinion. It is coming around more and more to branch banks and mergers. Here is what the Federal Reserve Board has to say about it. It says that the active member banks on January 1, 1927, numbered 9,260, that is, out of a total of 27,000 banks in the United States, only about one-third of them are members of the Federal Reserve System. On December 31, 1927, the active

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member banks numbered 9,034, a net decrease for the year of 226. Here is what the Board says about that:

> During the year 154 banks, joined the system and 101 banks withdrew, so that there was a net voluntary accession of 53 banks to the membership of the system. Of the banks that joined, 83 were newly organized National banks (including 1 bank organized to succeed a member bank that had previously suspended) and 61 were State banks entering the system, 32 becoming national banks, and 29 being admitted as State institutions. Ten banks which had previously suspended resumed operations. Of the member banks that withdrew from the system, 24 were state banks that withdrew after advance notice to the Federal Reserve Board, 2 were dropped from the membership in the system at the expiration of their State, charters, twenty were banks succeeded by non-member banks organized for the purpose, and 55 were absorbed by existing non-member banks.
>
> The excess of banks joining the system over banks withdrawing was off-set by losses incidental to mergers and suspensions.

In the matter of failures the Board says:

> Decline in the frequency of bank failures during 1927 reflected in part the previous elimination through failure of a large number of weak institutions and in part improvement of economic conditions. In certain of the important agricultural areas and particularly in some of the western, northwestern, and southern states, increased production and higher prices resulted in increased agricultural income and a consequent liquidation of indebtedness at the banks. It was, furthermore, in the regions that had a large number of banks in relation to population, that earlier failures had chiefly occurred, and the remaining banks, which were stronger and better managed, also had the advantage of proportionately larger number of depositors.
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> The following table shows, by Federal reserve districts, the number of banks that suspended during 1926 and 1927.

In 1926, 956 banks failed. There were none in the Boston district, none in the New York district, four in the Philadelphia district, 9 in the Cleveland district, 61 in the Richmond district, 162 in the Atlanta district, 182 in the Chicago district, 77 in the St. Louis district, 283 in the Minneapolis district, 112 in the Kansas City district, 50 in the Dallas district, and 16 in the San Francisco district.

In 1927 a bank (not a member bank) suspended in the Boston district. I may say it was due to unsound banking methods. By districts, there were two in the New York district; none in Philadelphia; 29 in the Cleveland district; 43 in the Richmond district; 63 in the Atlanta district; 124 in the Chicago district; 82 in the St. Louis district; 142 in the Minneapolis district; 100 in the Kansas City district; 44 in the Dallas district; and 32 in the San Francisco district, a total of 662 in 1927 as compared with 956 in 1926. I have not the figures for 1925 and 1924, but there was an even larger number in those years. The deposits in these failed banks in 1926 amounted to $272,000,000, and the failed banks in 1927 had deposits of $193,000,000. You will find that it was the small banks mainly that failed; 37 per cent or 247 had less than $25,000 of capital; 25 per cent or 165 had $25,000 capital; 9 had from $25,000 to $49,000, and only 2 per cent had from $200,000 to $600,000. The number of banks that suspended in towns of less than 500 people was 266. You can see that a bank in a town of less than 500 people with a capital of less than $25,000 cannot do very much banking business nor could it afford highly competent management. Many of these banks used to pay 6 per cent on time deposits therefore some

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people would take a chance, and when they began to withdraw their deposits the little banks would close. A hundred and forty-two banks failed in towns of less than one thousand people. In towns of 2,500 and over, there were 128 which closed last year.

The Federal Reserve Board also discussed bank mergers. There seems to be a growing tendency towards getting together.

By Mr. Hanson:

Q. What is the policy of the Board with respect to mergers?—A. I do not think the Board has announced a policy. They are watching the situation closely. It has no control over mergers. Legislation by Congress last year has facilitated mergers.

Q. Are they opposed to it?—A. I do not know that they are. I know that at least one member of the Board is in favour of a more unified system of banks with branches. He is a strong believer in the Canadian system. I will not give his name, but he is outspoken in his views.

By Mr. Woodsworth:

Q. Would you say there was any period of credit difficulty in the United States comparable to the post-war period, or that the Federal reserve system did not substantially reduce the credit strain from which bank failures result? —A. Well, I think the credit strain in 1893 is comparable—I remember that— I do not remember 1857, as I was not here then—but 1893, I remember very well and that was a pretty strenuous year. We did not have as many banks in those days, of course. The population was not as great. You have to get a proper proportion on these things. Mere numbers do not convey the idea.

Q. Would the existence of a Federal reserve system not tend to ease the strain and thus make the tendency to bank failure less?—A. It does with member banks. I do not know that it has much effect on the non-member banks. A Federal Reserve Bank cannot do anything for a non-member bank. A Federal Reserve Bank can discount eligible paper and good paper for member banks only in its own district. It cannot do anything for a member bank in another district except indirectly, by rediscounting for a Federal Reserve Bank. Furthermore, a Federal Reserve Bank is not allowed, except by special permission of the Federal Reserve Board, which has rarely been given, to rediscount for a member bank eligible paper which bears the endorsement of a non-member bank, on the theory perhaps that the non-member is not a member of the club, and not entitled to the privileges of the club.

By Hon. Mr. Stevens:

Q. Mr. Chairman, I have prepared a number of questions I wanted to ask Mr. Harding, but his most excellent outline of the system I think, has answered a great many questions.—A. If you will let me interrupt for just one moment, I have just one more statement to make, and then I am through and will be ready for questions. I was talking of the tendency toward consolidations and mergers in the United States. There the Board has some very interesting figures: In 1915, there were 55; in 1916, 56; in 1917, 35; in 1918, 36; in 1919, 80; in 1920, 77; in 1921, 104; in 1922, 125; in 1923, 120; in 1924, 124; in 1925, 120; in 1926, 154; in 1927, there were 259.

By Mr. Hanson:

Q. Do they have to have any governmental sanction of any sort, or are they purely voluntary on the part of the banks?—A. In the case of a National bank and State bank merging, if they are going to take the National bank charter, the government has a look in. If it is the other way round, it has not.

Q. If State banks are merged?—A. Not if they are non-member banks.

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By Hon. Mr. Stevens:

Q. I was going to follow that question you have been discussing, Mr. Harding, regarding membership in the Federal Reserve Bank, as it relates to a State bank. I think you said a moment ago that there were—I have an extract from the Federal Reserve Bulletin here—something like 1,700 State banks that were members?—A. 1,600 or 1,700, I think.

Q. I want to get this clear, because I think it is important. The total number of State banks amount to between 18,000 and 20,000 roughly?—A. Yes.

Q. You may not be able to answer this question, but I would like you to if you can. Of this number of 18,000 or 20,000 State banks, have you any idea, or would, say, 10,000 be a correct or approximately correct number of State banks eligible for membership?—A. I think perhaps that would be rather excessive.

Q. Have you any idea roughly of what number they would be?—A. We cannot very well tell whether a State bank is eligible for membership, unless it applies and is examined.

Q. I quite appreciate that it would be difficult. Let me put it this way: A good many State banks that could qualify have not made application to join?—A. I am familiar with the situation in New England, and I will tell you why a good many eligible State banks there have not made application to join. I will confine myself to my own bailiwick, in order to give you a clearer idea. The mutual savings banks are a very large factor in banking in New England. They have no capital stock. They each have a Board of Trustees. they are big investment trusts. The law limits the investments they can make to certain classes of securities, real estate loans and so on; and after paying their expenses they pay a dividend to the depositors. In many cases they pay four and a half per cent. Hardly any of them pay less than four. I doubt whether a mutual savings bank could retain its deposits if it paid less than four per cent.

Mutual Savings banks have been in operation in New England a number of years, and have been highly successful. The total deposits of the Mutual Savings banks of New England, are about three hundred million dollars more than the total deposits of all the member banks in New England. Now, the member banks, both the National Banks and State banks have time deposits, and they have savings' deposits. Their savings' departments are modelled after the mutual savings' banks, in their procedure. They have a pass book, and they pay out no money except on presentation of the pass book; and they have a right to claim thirty days' grace if they want to on any payment although they do not exercise that, except in case of emergency, of course. Now, the laws of the various States in New England respecting reserves have been modified during the last ten years, so that now, as far as a State bank which is a member of the Federal reserve system is concerned, no matter what the State law regarding reserves is, all the member bank has to do is to comply with the Federal reserve requirements, and then it is exempted from complying with the laws of its own State with respect to reserves. The Federal Reserve Act does not distinguish between savings' accounts and other forms of time deposits. It merely requires a reserve of three per cent on all time deposits, and requires a reserve of ten per cent on demand deposits, in the case of the Boston banks, and seven per cent on demand deposits in the case of all banks outside of Boston; but in the case of all member banks, the law requires three per cent on time deposits, without distinguishing between savings' accounts and other time deposits. The savings' banks are not required to carry any specific cash reserves with anybody. The States supervise their investments, and that is sufficient. And, with the exception of the State of Vermont, no New England State requires any chartered bank, trust company, or State bank

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to carry any reserve on savings' deposits, in order to enable them to compete more successfully, you see, with the savings' banks. The State of Vermont requires a three per cent reserve; that is the only one that does; but Connecticut, Massachusetts, Rhode Island, Maine, and New Hampshire do not. Now, that I think is the reason why about 225 banks which would be very desirable member banks do not come in. That is also the reason why three trust companies which we have lost from membership in the last three years have withdrawn from the system. They have very friendly feelings for it, but they say it costs too much. They say, in other words, "as non-member banks, we do not have to carry this reserve on our savings, and it is too expensive."

Q. That is the Boston system?—A. Yes.

Q. That leads to a question that I was going to ask and while it may seem a repetition, I will put it in the form I have it here, to get it clear on the record; and that is this: that the Federal Reserve Bank demands from its member banks, as you have already stated, a deposit with them of say, seven to ten per cent of their demand deposits, and three per cent of their time deposits?—A. Yes.

Q. Now then, do the Federal Reserve Banks pay interest on those deposits? —A. I might say, in the case of Chicago and New York, the reserve on demand deposits is thirteen per cent. These two cities are classified as central Reserve cities. Banks in cities such as Boston and Philadelphia and about fifty others classified as Reserve cities, must carry a reserve on demand deposits of 10 per cent, and banks located in all other cities and towns must carry a 7 per cent reserve on demand deposits, but the reserve of 3 per cent on time deposits is uniform for all banks wherever located. The Federal Reserve banks pay no interest on deposits.

Q. These deposits are made by the member banks with the regional Federal Reserve Bank?—A. Yes.

Q. Does the regional Federal Reserve Bank pay any interest to the member banks for these deposits?—A. It does not.

Q. Is that a matter of dissatisfaction with the member banks?—A. Originally it was. In the New England district, there was some dissatisfaction, and we adopted the system some years ago of holding stockholders' meetings get the members together once a year, letting them conduct the meeting, and at the first meeting the question came up why the Federal bank did not pay interest on deposits. We threshed it out, and here is what we told them. We said, "in the first place we are a reserve bank, and our excess earnings will average only about five hundred thousand dollars a year; after we pay our dividends, we have about five hundred thousand dollars a year to carry to surplus." Now, if we paid two per cent interest on $150,000,000 of deposits, that would be $3,000,000 a year. It is clear that we cannot pay that $3,000,000 a year, unless we go out and earn it. How can we earn it as a reserve bank? In other words, if we go out into active business, if we could induce Congress to amend the law so that we can go to your own towns and cities and offer to discount paper at four per cent, we can pay you the interest, but we would everlastingly play "heck" with your business; we would reduce your interest rates; we would put some of you out of business; everyone would want to do business with the Federal reserve bank. You cannot lend money at four per cent and pay taxes and interest on deposits. We do not pay taxes except on real estate. Do you want to lose a very substantial part of your earnings for the sake of putting the Federal Reserve Banks in position to pay you interest on an average of about five per cent of your deposits? That is about the figure, because the average between the reserve required on time and demand deposits is about five per cent of total deposits. And they voted unanimously that they did not want any interest on deposits, and we have not heard of that question since.

[Mr. W. P. G. Harding.]

Q. In other words, that emphasizes the point that you are a reserve bank, and not a competing institution?—A. In other words, we cannot be a reserve bank and an active competing bank at the same time. We have to be one or the other.

Q. I notice that the statement of the Reserve Bank—I get this on the record for the matter of convenience—shows under "liabilities" an item of member banks' reserve account, $2,362,000,000?—A. That is a combined statement, yes.

Q. That is the funds to which we are now referring?—A. Yes, for all reserve banks combined.

Q. Now, another question, Mr. Harding, regarding the resources. I do not know whether you can answer this or not, but as near as I can judge from checking up the statement, this is the figure that I arrived at; that the bank resources of banks which are members of the Federal Reserve system amount to about sixty per cent of the total bank resources of the United States. Would that be about correct? And about forty per cent are under control?—A. No, it is about seventy-five per cent.

Q. It is now about 75 per cent?—A. Yes. You see, the large banks are nearly all in, and although they are numerically in the majority, the other banks that are out are so much smaller that the banks which are members of the Federal Reserve system have about 75 per cent of the banking resources of the United States.

Q. Your estimate would be about seventy-five?—A. About 75, yes.

Q. Now, another question that you have already dealt with pretty completely. A statement was made by Mr. Phipps the other day in which he quoted an article or speech made by Mr. Mellon. I have the speech here in the "American Bankers' Journal," and by the way, it is a very interesting speech. There is one part of it which was quoted the other day, and which I will read to you and if you will be good enough to give us your opinion, I shall be glad.

This appears on page 637 of the American Bankers Association Journal of February, 1928, and is a report of Mr. Mellon's address; anyway, it is an article by Mr. Mellon which was contributed I think.

> The work which the Federal Reserve System is doing is along sound, constructive lines. But the greatest mistake would be to expect the impossible. It is not a panacea for all the financial and economic ills which may befall the country. Neither the Federal Reserve System nor any other system can control prices. The most that system can do is to influence to a limited extent, from time to time, the total volume of credit and its cost. While credit is one factor in influencing prices, it is neither the only factor nor the controlling one; and it would be asking the Federal Reserve System to perform the impossible if it is to be charged with the responsibility for controlling prices merely because it can exercise a limited control over the amount of credit available.

Then he adds farther on, making an appeal apparently to the public, for their co-operation and support:

> It is left for us to make certain that the System shall not be endangered by loading it down with extraneous or impossible tasks.

That is all I will quote.

WITNESS: I agree with every word of it, and I want to say further, that in my opinion, Mr. Mellon is better qualified to express an opinion on banking and finance than any other man in the United States.

Q. That is a very satisfactory answer, as far as I am concerned, because I might modestly say that it coincides with my own view. You have already given us a very excellent explanation of your open market transactions and I will

[Mr. W. P. G. Harding.]

merely ask one question to round my own questions out, and it is this; the Federal Reserve Bank in any of their open market purchases, purchases only paper that bears the endorsement of first, member banks, or institutions whose standing is beyond reproach?—A. Yes.

Q. In other words, it must have the endorsement of a very highly reputable financial concern?—A. Yes. You must bear in mind that this paper acquired by purchase by the Federal Reserve Bank is eligible as security for Federal Reserve notes, and if we are to issue Federal Reserve Bank notes on either 100 per cent gold or 40 per cent gold and 60 per cent paper, it is necessary that we have good solvent liquid paper back of those notes, otherwise we would get into all sorts of trouble. There has been one dominant idea in the organization of the Federal Reserve System. It was not designed to create in the country an institution that would put every other bank out of business. It was intended to aid and supplement the existing banking system, not to throttle it. It was to provide something that our banks could go to in times of stress, or, to quote the caption of the Act.

> To provide for the establishment of Federal Reserve Banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States,—

to take care of their legitimate requirements and direct their policies along right lines, as far as possible, rather than to start a big system of competing banks, which, by reason of exemption from taxation would come in, and ability to issue circulating notes would soon have become dominant. The people of the United States, do not want a Central Government bank and will not stand for it. The nearest approach they were willing to make was the Federal Reserve system of regional banks owned by the banks themselves.

Q. Neither you nor the members of your Board have any desire to enter into competition?—A. No, not at all.

Q. One other question in regard to this statement, the item marked " other deposits $17,000,000 "; would that be deposits of State banks, not members?—A. Possibly to some extent, but I imagine that that relates more to deposits of foreign banks of issue. A non-member bank is allowed to carry deposits with the Federal Reserve Bank to off-set transit items; in other words, the Federal Reserve System is open for the collection of cheques from non-member banks, provided they make deposits to cover the amount of their cheques in transit, but very few of them have ever availed themselves of this privilege.

Q. That is a free collection?—A. A free collection.

Q. They do not avail themselves of it?—A. Not the non-member banks. Some of the smaller member banks have fought the par clearance system very bitterly. They do not like free collection of cheques, which deprives them of the exchange charges they formerly made.

Q. As a matter of fact, under the free collection system, there is not very much expansion in your business in that line, is there?—A. Well, speaking for the Boston bank, we handle from 250,000 to 400,000 cheques a day in that one bank.

Q. That represents a very large sum, but it is not actually credited until it is actually collected?—A. No. We give a deferred credit. We know exactly how long it is going to take. We have a wire transfer system, and as soon as we know a cheque has been paid, we give credit for it without waiting for returns by mail. The Federal Reserve banks settle balances with each other through the gold settlement fund.

Q. That is by wire direct from one district to another?—A. By wire direct.

Q. Such credits to member banks for instance, on a collection given to a member bank, on a bank in another district, while there is what you call a deferred credit given, it is only given where there is a deposit maintained by the client of the bank?—A. Yes.

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Q. That is true, is it not?—A. Yes. Not only does the Federal Reserve Bank pay no interest to anybody on deposits, but member-banks have to make reports of their deposits from time to time, and we check up their reserve requirements very closely. The city banks report twice a week, and country banks, twice a month. If a bank which ought to carry $100,000 for reserve carries only $90,000 for a period, instead of allowing it interest on its $90,000 we charge it interest on the $10,000 it does not carry, as a penalty for deficient reserve.

By Mr. Ladner:

Q. I think this is important. I started the question, but will go over it again. We have in this country the Finance Act of 1914, which is a species of rediscount; in your opinion, Mr. Harding, would it follow from a banking point of view, that the discount rate there would vary and change approximately as that of the Federal Reserve System?—A. I really do not feel competent to answer that question. I should think if your Government has any leeway in the matter, that the Banking Board would base their interest charges upon general money market conditions.

Q. There is one other question. Sir Herbert Holt, whom you no doubt know, a prominent banker in this country, in his recent report of 12th January, 1928, stated:

> In international banking circles the opinion is being inground that a world shortage of gold will be experienced unless effective international co-operation prevents the accumulation of unnecessarily large individual holdings by central banks. Should such a shortage develop, it must necessarily result in a gradual decline in price levels and resultant loss and unsettlement in business.

May I ask if your view concurs with that? or varies from it?—A. Well, in principle. There may be some modifications to consider, but in principle I think it is correct.

Q. Sir Herbert Holt continues:

> Intelligent co-operation between the more important gold-holding countries can prevent any such difficulties arising, but this may involve changes in policy on the part of a number of countries not in the first rank in international finance. The gold holdings of Canada are accumulating and will reach still higher figures, as and when a larger volume of note circulation is made necessary by the greater volume of business arising from the growth of the country. Neither Great Britain, Germany, or other commercially important countries, except the United States, keep metallic reserves proportionately as large as those now held in Canada.

Do you know about that Mr. Harding, as to the proportionate reserves?—A. Well, that varies, of course, from time to time sometimes. Take Poland for instance; which is not regarded as a rich country; after they got their stabilization loan, I think the Bank of Poland had the largest percentage of gold reserve in Europe, and one of the largest in the world, but that percentage will be reduced as the proceeds of the loan are expended.

Q. Having in mind the close proximity of Canada to the United States and the exchange on the money markets, supposing in our gold reserves we had an amount which appeared never to have been used or necessary since 1914, in all our business and economic activities, as a banker, would you consider it sound, if that unused portion in the course of that time were used, let us say in the reduction of the National debt? In other words, if we have $185,000,000—

The CHAIRMAN: Mr. Ladner, I do not want to interrupt the question but our time will be up soon. I am not going to call it 1 o'clock. We all want Mr. Woodsworth and Mr. Spencer to go on; it is grilling, I know.

[Mr. W. P. G. Harding.]

By Mr. Ladner:

Q. That is my last question, Mr. Harding.—A. I hardly feel qualified to answer that question. That is something your own financiers and bankers can determine better than an outsider can guess at it for you.

The CHAIRMAN: We will give just as long a time as Mr. Harding will stay with us.

Mr. WOODSWORTH: There are some others Mr. Chairman but this is something I would like to ask. I have only two or three questions to ask of Mr. Harding.

By Mr. Woodsworth:

Q. Mr. Harding, you have suggested that control of the Federal Reserve is not so much through discount rates as through open market operations. There are alterations in the discount rates, for what purpose?—A. To bring the rate in line with the market; in other words, we would not want to maintain a 4 per cent discount rate if we had a 6 per cent money market. We would raise the rate. It would be futile for us to do otherwise. The rates on a prime bankers' bill is the best guide as to what the market is.

Q. I notice an English publicist has said recently:

> Up to last week it had kept the price of credit low, with a bank rate of 3½ per cent, and the volume of credit was expanding while prices remained stable.

That apparently would mean good conditions, because he went on to speak of stabilization and so on, and then proceeded:

> What actually happened is fairly clear. The new credit was ample and cheap. But it did not go to purposes which would increase wages and make a mass demand for goods. It went to finance, speculative dealings in stocks and real estate. Perceiving this, but impotent to prevent it by any subtler action, the Federal Reserve Board raised its bank rate to 4 per cent, and proceeded at the same time to curtail the volume of credit.

—A. Let me say right here that the recent advance in the rate from 3½ to 4 per cent, so far as the New York Stock Market was concerned, caused a slight reaction for two or three days, but it had no lasting effect whatever. Note the prices of the more active stocks such as Radio and General Motors on the New York Stock Exchange to-day as compared with prices before the Bank rate was raised. The Hon. Mr. Davis, Secretary of Labour has been making a study of labour conditions in the United States; he has just estimated the number of unemployed at 1,870,000. He does not suggest that there is anything wrong with the Bank Act or the Federal Reserve System; he does not blame the Federal Reserve System for unemployment but he makes a suggestion which I think is eminently sound. If the Governments throughout the world would act upon this policy, they could iron out these variations in the demand for labour, just as the Federal Reserve System has been trying to iron out the variations in the money market. That is, in times of great industrial activity, when private capital is employing labour fully and there is a general demand for labour, let governmental activities be slowed down, and in times of depression when private concerns have few orders and there is nothing very much doing, then is the time for Governments to go ahead with building programs and internal improvements, giving employment to labour and getting more efficient work, thus ironing out these periods of extreme depression. This is a matter the Federal Reserve System has nothing to do with. It has no control over the labour situation in the United States.

[Mr. W. P. G. Harding.]

Q. It had nothing to do with the speculation in stocks at that time?—A. I do not think it did.

Q. Or any effect upon it?—A. I know the discount rate has little effect in the agricultural sections because farmers and merchants borrow from the member and non-member banks, and I never heard of current money rates in rural districts being as low as 4 or 5 per cent. I want to say another thing: We tried an experiment in 1915. The Federal Reserve Board issued a regulation in 1915 authorizing a special commodity rate. We wanted to test out what the Federal Reserve system could do in the way of promoting orderly marketing, by aiding producers to market their crops gradually and avoid the usual rush to market. We issued a regulation under which a Federal Reserve Bank could discount paper secured by warehouse or elevator receipts for grain and cotton or other agricultural staples, for ninety days at a three per cent rate, provided the borrowing bank would certify that it had lent the money in the first instance to the producer at not over six per cent. In this way, we gave the banks in the South and West an opportunity to lend a farmer cheap money to enable him to carry over part of his crop and market it gradually. The Federal Reserve Bank could advance the member bank money at three per cent if the member bank had lent money to the farmer at not more than six per cent Very little use was made of this opportunity. The banks generally preferred to lend at their usual rates, and if rediscounts were needed to pay the standard rate, they seemed to be afraid that a lower level of interest rates would be established, if they should make loans at 6 per cent. After several months trial of the plan, the Board withdrew the regulation.

Q. Do I understand then that your system, the Federal Reserve system has not any effect in the direction of stabilizing the general price level?—A. I did not say it has no effect. It has whatever effect that a stabilization of the money market has, but I agree with Mr. Mellon's statement, that the cost of credit is only one factor, and not by any means the most important factor.

Q. You do not consider that there is a direct relationship between the price level and the value of the dollar?—A. Well, of course, there is a certain relationship between the purchasing power of the dollar, and the general price level.

Q. I am getting at an understanding of what you have said there, if I may; that if it does affect the stabilization of the money market, is not that another way of saying it does affect the price level?—A. To a limited extent. It is only one of a number of factors, and not the most important factor.

Q. You say in the United States there is a fear of central control in one central bank?—A. Yes.

Q. The regional bank system is designed to overcome such centralization, I am thinking in terms of Canada. Our banking system is centred in two cities in the east, in Montreal, and in Toronto. That is what I have in mind behind this question. Supposing there were a centralization in New York and Boston, or New York and Chicago, would that be considered satisfactory for the United States?—A. Banking in the United States is a highly competitive business. Boston is the largest city in New England, and the banks there have more deposits than any other city in New England. Although, as a result of mergers, there are now in Boston only about one-fourth the number of banks there were 30 years ago, there is keener competition between the banks in Boston than there is in any other city of which I have knowledge.

Q. Perhaps I have hardly made myself clear. If everything were concentrated in the eastern cities, or if you had no regional banks in the west, would that be considered satisfactory to the people in Kansas or California?—A. No. With this present population and resources they would of course

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organize banks of their own. Is the fact that the banks in Canada are concentrated in Toronto and Montreal due to the law, or is it because there is no need for home-office banks in other sections?

Q. No, but it is at the present time confined in that way.—A. Is there no competition between your banks here in Canada?

Q. The headquarters of all the banks are located in two cities?—A. Well, I say, is there not competition between them? Do they compete in any way?

Q. Yes, but there is no competition from outside places. We have no regional system by which we have western areas?—A. From what I know of your situation in Canada, it would be absolutely impossible for you to have a regional system in Canada such as we have in the United States, because you have not the banks to take the Reserve Bank stock. If you started a regional system of banks, you would have to find some way of raising the capital. Would the Government own it, or would you invite private capital to come in? How would you work it out? I do not presume to advise you what to do in Canada, but I think I know enough about your situation to know that a Federal Reserve system, organized on the same basis as in the United States would be impossible in Canada.

Q. We are not suggesting that, of course, in any way, but I would like to ask one further question. You said that in 1907 a panic at that time would have been impossible under the present Federal Reserve system?—A. Yes.

Q. Would you say the Federal Reserve system would prevent any future panic?—A. No, it would prevent a currency panic. The Federal Reserve system cannot prevent wars, earthquakes or some unexpected cataclysm; but all that is claimed for the Federal Reserve system by its friends is that it can effectively prevent a pure currency panic such as the panic of 1907.

The CHAIRMAN: Mr. Spencer?

By Mr. Spencer:

Q. Mr. Chairman, the time being late, I will not trouble Mr. Harding with more than three short questions, if I may. One is, what is the attitude of the ordinary banks towards the open market operations of the Federal Reserve Board?—A. The ordinary bank?

Q. Yes?—A. Taking the banks by and large, I think they approve of the operations. I know of some individual cases where banks, possibly for selfish reasons, would prefer that the Federal Reserve Banks keep out of the market and let them control this business.

Q. Second, do the Federal Reserve Banks or the Federal Reserve Board attempt to regulate the general business or the price level in the United States? —A. The Federal Reserve Banks and the Federal Reserve Board all have their statistical departments. They study the situation very closely, but there are so many factors connected with general business in the United States, that I think it would be futile for them to attempt to regulate it. One thing that affected business very seriously in the United States last year was the flood in the Mississippi valley, and last fall the floods in Vermont affected business in New England; in Pennsylvania the coal strikes have affected business. I do not see what the Federal Reserve Banks can do about things of that kind.

Q. It has been rumoured that in 1920, or when the Federal Reserve Banks' reserve ratio was very low, the United States government—so it is rumoured—or the Federal Reserve Board suggested to Canada and Japan not to withdraw their gold which they had on deposit in the United States. Do you know if this was so?—A. I never heard of it before, and feel safe in saying that no such suggestion was made or considered.

[Mr. W. P. G. Harding.]

Q. Then a last question?—A. Just a minute. I will say that from September, 1917, until early in the year 1919, by executive order of the President of the United States, there was an embargo on gold shipments from the United States. Shipments could be made only by virtue of permits granted by the Federal Reserve Board, which had to take into consideration the public interest. If a shipment was not incompatible with the public interest, the Board could permit it. The President issued another proclamation early in 1919, removing the restrictions on gold exports. And, during 1919, the net loss of gold to the United States by reason of shipments going out after the removal of the embargo was about $350,000,000. I never heard of any attempt by any one to restrict gold shipments after the embargo was lifted.

Q. A last question. Are Treasury certificates the only type of paper used in the Federal Reserve Bank open market operations?—A. Is what? I did not catch your question.

Q. Are Treasury certificates the only paper used in the Federal Reserve Banks' open market operations?—A. Oh, no. They buy bills of exchange in the open market. I intended to convey the idea that the Federal Reserve Banks stand ready to make purchases of prime bills of exchange in the regular course of business at all times; when there is a good demand for bills, other banks get them, while at times, when money tightens up the Federal Reserve Banks get the bulk of them. The Federal Reserve Banks stand back of the bill market; they will buy them when no one else wants them; but the Federal Reserve Banks do not go into the bill market for the purpose of stabilizing the money market, as they do when they buy or sell Treasury certificates. The Federal Reserve Banks do not do anything primarily for the purpose of making money. They could make a great deal of money if they ceased to function as reserve banks, and went into the general banking business. The question of making money does not figure in the management of the Federal Reserve Banks. Their dealings in bills, while undoubtedly exerting a stabilizing influence, are not for the primary purpose of stabilization as is the case with their purchases and sales of short-time government obligations.

By Hon. Mr. Stevens:

Q. There was one question I overlooked. I asked Mr. Pole, two years ago, this question; and I will just read it for the sake of brevity:

> Q. Are you favourable to the scheme of a Government guarantee of deposits?—A. By no means. I must cite the experience of those States, of which there are several, which have undertaken to guarantee deposits, and which have been universally a failure. The State of Mississippi is an instance.

What is your opinion on that?—A. I agree absolutely.

By Mr. Matthews:

Q. I would just like to ask this: In your opinion, does the Canadian banking system adequately take care of the requirements of Canada?

Mr. Spencer: May I have that question again? I did not hear.

By Mr. Matthews:

Q. I asked if in Mr. Harding's opinion, the Canadian banking system adequately takes care of the requirements?—A. I can only answer that from an American standpoint. I have never heard any criticism of the Canadian banking system in the United States. We have always regarded it as a system that, under your conditions, was adequate. I have here tables, showing advances to Canadian banks from 1914 to 1928 which have been made by your Treasury Board. These advances were to supplement the ordinary resources of your

[Mr. W. P. G. Harding.]

chartered banks. They are somewhat analogous to the rediscounting by some Federal Reserve Banks for other Federal Reserve Banks. Our period of stringency in the Federal Reserve System was from the summer of 1919 to the middle of the year 1921. During this period we were engaged in very large Federal Reserve rediscounting operations for other Federal Reserve Banks. The largest amount of rediscounts at any one time that Federal Reserve Banks were carrying, for other Federal Reserve Banks was about $360,000,000 in November, 1920. I see here, from your Treasury figures, that in 1918 the greatest amount outstanding of advances to banks was in November of that year, $116,500,000; in November, 1919, $112,957,000 and in November, 1920, $123,689,000. Now, in November, 1920, the Federal Reserve Banks' rediscounts for each other were about $360,000,000. Let us apply a proper proportion in order to compare the amount of relief rendered. I take it that in comparing the United States with Canada, except as to area, we should multiply your figures by 12. It appears therefore that in proportion to resources, the amounts advanced by your Treasury Board to Canadian banks were much larger, at the peak of the strain, than were the rediscounts of our Federal Reserve Banks for each other.

By Mr. Ladner:

Q. In other words, the operations with relation to the banking business of the country, were in excess, in proportion?—A. You advanced your banks $123,689,000 in November, 1920, when the Federal Reserve banks were rediscounting about $360,000,000 for each other. At this time the Federal Reserve Banks had outstanding in Federal reserve notes about $3,400,000,000 and their loans and investments amounted to nearly $3,000,000,000. The rediscount operations as between Federal Reserve Banks were necessary in order to enable each Federal Reserve Bank to maintain the minimum reserve required by law.

The CHAIRMAN: Mr. Harding, the Committee desire to express their appreciation of your appearing before them to-day.

The Committee adjourned until Thursday, March 29.

COMMITTEE ROOM 429,
HOUSE OF COMMONS,
WEDNESDAY, April 18, 1928.

The Select Standing Committee on Banking and Commerce met at 11 o'clock a.m., the Chairman, Mr. F. W. Hay, presiding.

The CHAIRMAN: We will deal first this morning with the resolution on Banking. At the request of the Committee, we have with us Mr. Ross, Secretary of the Canadian Bankers' Association. I understand that you are now ready to hear Mr. Ross.

HENRY T. ROSS, Secretary of the Canadian Bankers' Association, called and sworn.

By the Chairman:

Q. How long have you been Secretary of the Bankers' Association, Mr. Ross?—A. Eleven years.

Q. Had you been a banker before that time?—A. I had been connected with the Finance Department for ten years.

Q. Would you prefer to answer questions, or to make your own statements?—A. Mr. Chairman, if I may say so, I have no statement to make, and I have not any idea of what is required. If any questions are to be asked, I shall be glad to answer them as far as I am able.

The CHAIRMAN: Then, gentlemen, you have an open field.

By Mr. Spencer:

Q. May I ask, what position you held in the Finance Department, Mr. Ross?—A. I was Assistant Deputy Minister for ten years.

Q. And you have been for 11 years Secretary of the Bankers' Association?—A. Yes.

Q. There is a question I would like to ask; I do not know whether you will be able to answer it, or whether we shall have to ask someone else. I have a letter from Saskatchewan asking this question: Is it a fact that it is the custom of certain banks to charge a dollar a month on an account, when the amount left in the account is less than $500. I would ask you first of all, if that is customary?—A. I never heard of that being customary. If I mistake not, there is some provision in the Bank Act in connection with such a matter.

Q. I understand, and Mr. Ross will probably correct me if I am not right, that there is a clause in the Bank Act prohibiting any bank charging anything to a customer without his consent?—A. That must be a matter of contract.

By Mr. Robinson:

Q. I believe there is such a charge made by some banks in the United States?—A. Yes, I believe it is quite usual there.

The CHAIRMAN: Mr. Ladner, you have some questions?

[Mr. Henry T. Ross.]

By Mr. Ladner:

Q. In the operations under the Finance Act of 1914, do you know whether it is a practice for the banks to have what is called continuing borrowings?—A. Continuous borrowings?

Q. Yes?—A. I think each bank borrows according to its requirements, and the borrowings are cleared up from time to time. A bank usually arranges, some time early in the year, for its possible requirements. Any borrowing that is done has to be cleaned up within a year; that is the term, unless there is an extension. I think, so far as my observation goes—I have not got actual knowledge—the accounts are usually cleaned up frequently, because no bank is anxious to keep on paying interest any longer than serves the immediate purpose.

Q. Are you familiar with the method by which the rate of interest is fixed under the operations of the Finance Act?—A. That is a matter for the Treasury Board to determine. The Treasury Board determines the rate of interest, based probably, I would infer, upon the rate in New York; although the rate there changes more frequently than it changes here. There is a steadiness about the rate here.

By Mr. Irvine:

Q. Steadily high?—A. No, it is moderate.

By Mr. Ladner:

Q. We had evidence the other day from Mr. Hyndman, I think it was, that the rates had been changed by the Treasury Board three times since 1914?—A. Yes, it was five per cent for a very long period, and I think the first change —I have a recollection of that—the first change was brought about by the fact that money was cheaper in New York, and some of the banks intimated—I am speaking now from mere hearsay on my part—that we could more conveniently borrow in New York, than to borrow from the Finance Department, and the Government here would lose the interest, which was a gain—unless it was modified.

By Mr. Donnelly:

Q. On the first of November, 1927, it was lowered to four per cent, and on the first of September, 1927, to three and three-quarters. Why those two changes in one month?—A. You will have to ask the Minister for that. The matter originated wholly with the Minister.

Q. Don't you think it strange that there should be two reductions just at the time of a lot of speculation?—A. No, I do not think the speculation had anything to do with it.

Q. There was a demand for money at that time for speculative purposes?—A. I think the Minister was on the eve of asking the banks for a loan at four per cent, and he thought he could hardly charge them that much if he was going to get a loan for three years of forty odd millions, at four per cent; he would have to give them a margin. I do not know that. You would have to inquire from the Minister. I do not know the operation of his mind. It surely originated with him.

By Mr. Ladner:

Q. The rate of the Federal Reserve Bank in New York, or even of the Federal Reserve banks—we learned from Mr. Harding, that the rates of interest are quite uniform in the United States. That is, with the twelve regional banks; they have power to make a variation, but in practice they are uniform. Now, taking the North American continent as an economic unit, and they are interdependent, that is, the two nations; as a banker, do you not think that there

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should be a closer relationship in the adjustment of rates of interest between the Federal Reserve banks and the Treasury Board than now exists?—A. If you will pardon me, I think Mr. Harding made it very clear that rates were not uniform; that in western areas, and where prime paper was not offered, the rates were materially higher, that there was a substantial variation and that it was not possible to secure uniformity for that very reason. And he gave figures, if I remember—I heard him here—to show that western rates might be substantially in excess, and if you examine the Federal Reserve Bulletin, you will find the rates there changing.

Q. Those are the rates on time bills?—A. Yes.

Q. But I am referring to the rates as between one Federal Reserve Bank and another, the Federal Reserve discount rates?—A. There have been variations.

Q. He mentioned an instance of one variation between Chicago and New York?—A. Yes. Recent.

Q. You recall that?—A. Yes.

Q. And he explained that the results of that were such that hereafter there would be no variation, that the Central Board in practice would see to it that the rates were uniform. I have his evidence here. I do not wish to take the time of the committee in looking it up, but I am pretty certain of my grounds, that there is a uniformity of rates so far as the different Federal Reserve Boards go?—A. That does not mean the uniformity of rates to the public, though.

Q. Oh, no. The value of the bills, and the prime bills and other securities will vary according to the security?—A. Yes.

Q. But, on a given prime bill the Federal Reserve discount rate is uniform so far as the different Federal Reserve banks go?—A. I am not so sure of that. I would like to see a copy of the Federal Reserve Bulletin, because the table of rates in the different regional districts, I know, shows variation; it may be that it is between borrowers and not between Federal Reserve banks. It may be as you say.

Q. Assuming that there is a uniform rate for the Federal Reserve banks in the States, do you think that in the practice of banking and financial operations as between the two countries, the rate in this country under the Finance Act would necessarily conform to the rate down there?—A. No, I think not. Not necessarily.

Q. Why not?—A. The conditions are very, very different here in this country. We have a sparse population; the transactions are relatively less, and machinery has to be set up which, in relation to the business done, costs a great deal more.

By Mr. Irvine:

Q. May I interject a question there? You just indicated that the Treasury Board here have altered the rates because of an alteration in New York?—A. No, I did not say that. I do not know what caused the Treasury Board to change.

Q. If I recall rightly, one of the Departmental officials here said that was the reason why they changed. I asked him. Now, if your statement be correct, that the conditions are so different, then we should see to it that the rates are not changed according to New York. But, they are being changed according to New York?—A. It would be very difficult to see to it, as you express it, in any effective way. I do not see how by legislation, or any conclusions reached here, the price of money could be settled.

[Mr. Henry T. Ross.]

By Mr Ladner:

Q. Now, Mr. Ross, have you an idea of the gold reserve in Canada approximately at the present time?—A. Perhaps $97,000,000. I think I have a statement here, if I may get it.

Q. Yes, we would like to have it?—A. At the end of February, the gold held by the Department of Finance was $93,973,000, of which a little over three millions was held against deposits in the Post Office savings bank, leaving a balance of $90,966,000, held against issues of Dominion notes.

Q. That is, held against the issues of Dominion notes, did you say?—A. Yes.

Q. Is there any other gold which the Dominion Government holds?—A. Not as far as I am aware.

Q. What gold would the banks hold?—A. You will get that in the return.

Q. Have you got that?—A. I think I have a copy of a statement here. Sixty-six million, at the end of February, the same time.

Q. Do you know if any of the banks in England, outside the Bank of England hold gold?—A. I do not know, I am sure. The English banks do not publish detailed statements of their assets. They have a lump sum for gold and balances, in the Bank of England, and you cannot tell how much they have of gold.

Q. But, they have gold holdings, though?—A. I do not know, I am sure. I would expect they would have, but I have no knowledge.

Q. For the purpose of the record: under the Federal Reserve system, gold of course is lodged with the Federal Reserve banks, and member banks hold certificates?—A. I do not know that the banks are compelled to hand over all their gold to the Federal Reserve banks.

Q. But in practice they do?—A. Largely, yes.

Q. But in Canada, both the Government has the gold, as you put it, $90,-000,000, and the banks have $66,000,000?—A. Yes.

Q. Now, what use do the banks make of that gold?—A. Just the same use as the Government makes of its gold. It is a reserve against outstanding obligations. It gives stability to the banking structure.

Q. Would it be better, so far as the banks and the public are concerned, if the banks' gold were placed with the Government, and the currency or note issue controlled in that way, as is the case in Great Britain and in the United States?—A. I do not think so. I think we have grown up and developed our own system to meet our own conditions, and just as Mr. Harding said, you cannot conform one system to another system simply because it works well in one country; you have to take the evolution in each country and not attempt any drastic changes unless for very sufficient reasons, and at the present time, I do not see the reasons why the change you suggest is desirable. In fact, I can see some reasons why it is not.

Q. I am not suggesting it; I am merely bringing out the data on which an opinion can be formed. In the securing by the banks of note issues from the Government, or rather under the Finance Act, in obtaining credit, the banks can, as I understand it, even place grain certificates, and are they allowed to put in Dominion and Provincial bonds?—A. Yes.

Q. Dominion bonds too?—A. Yes.

Q. And they can secure such notes from the Dominion Government as they require in their banking operations?—A. Yes.

Q. Then why could not the banks take the sixty-six million and buy bonds, and use the bonds?—A. That is an old story.

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Q. I know, but I want to know what it is due to?—A. I say that it is necessary, to maintain the stability of a banking structure, that there be a reserve of gold.

Q. For what purpose?—A. For the purpose of satisfying the public. If the public thought there was no gold, and they have the right to have their notes paid in gold or Dominion notes—that is a question you might ask all over the world. Why does the United States hold gold? Why does England hold gold? Why does France buy gold?

Q. Now, you touch the crucial point. In the United States and Great Britain, where they have developed perhaps the biggest banking structures in the world, they do not do that as in this country; the gold is actually put in a central point?—A. But you are asking why the banks hold gold. You have assumed something.

Q. In another way, I am asking you why the banks' gold is not put in the Dominion Government?—A. You are assuming two things that are not correct. I understand that the banks in England do have some gold, and that the banks in the United States do have some gold.

Q. But is not that put with the Federal Reserve banks?—A. There is no legal obligation, as far as I understand.

Q. Mr. Harding made it clear that practically all the gold, except perhaps a few five-dollar pieces, is placed on deposit in the Federal Reserve banks?—A. That may be, as a matter of convenience.

Q. And on that the note issue is based?—A. Yes.

Q. Now, my point is, would it not be in the interests of the banks if the gold was put in the Dominion Government, or if their gold was used to purchase Government bonds, which is an obligation against the Dominion Government, and those bonds were used?—A. That is the point we started with. If they bought Dominion bonds with all their gold, what would become of the gold?

Q. It would go to the Dominion?—A. Would it go to the Dominion? And if so, what would the Dominion do with it?

Q. They would use it as a reserve for their note issue?—A. Well, the Government might not want to issue bonds, and the Government should not be under the obligation of issuing bonds for the purpose of furnishing currency in that way. That would be the American method of 1863.

Q. No, the Government is not under that obligation, unfortunately. They already have issued bonds to the extent of millions of dollars?—A. Then, they would have to go into the bond market to get the bonds, and the gold paid for them would be put back in the banks again.

Q. In the last analysis, the gold would find its way into the Government reserve, would it not?—A. I am not so sure of that. The Government is not making fresh issues of bonds. If the banks had to acquire Government bonds with their gold, they would have to go into the market and buy the bonds.

Q. Even on that assumption, my point is that the banks would put in these bonds for their note issues and they would have the revenue from the bonds?—A. I have said, that is an old story. You would eliminate the use of the gold?

Q. No, you would not. The Dominion Government would still have the essential requirements of gold for the note issues?—A. The Dominion Government would not have the gold.

Q. Not that particular gold, no. Perhaps you are right there?—A. They would not get that gold at all. The banks would have to buy the bonds on the market. The public who sold the bonds and got the gold would put it back in the banks. They would not give it to the Government. They would not give the Government their gold, so the Government would not have the gold.

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Q. I am coming to that point. The Government would really have enough gold, as much as would be required in the practice of banking, to support a note issue. That is my contention. Now, I understand that the Dominion Government had about a hundred and eighty-five million dollars in gold. Are you sure your figures are correct?—A. They are what is here.

Q. I am informed that there is in the vaults of the Government approximately fifty or sixty millions in gold which has never been touched, or been required in the financial operations of the country since before the war?—A. I think your information is not correct.

Q. It comes from a very high authority, Mr. Ross. But you do not know about that?—A. I am absolutely certain it is not correct.

Q. My information is that there is about fifty million dollars which would not be required so far as the note issues are concerned, by the Dominion Government, and which could be used in the reduction of our national debt?—A. The Government from time to time buys the gold from the mines, and has it converted into mint bars. There may be fluctuating amounts, changing from time to time, but there is no such margin as you mention.

Q. There is no such margin?—A. Oh, no.

By Mr. Ward:

Q. May I ask a question there? Is there any control over the amount of gold that the Government requires? I mean, do they buy indiscriminately all the gold that is offered?—A. Practically so, I think. The Government gives Dominion notes, or gives a cheque on its balance in the Bank of Montreal. That is the way they pay for it. Of course, there is a limit. The Government balances are limited, and they cannot give cheques for the balance they do not have. That is the limit of their purchasing power just like any one buying anything else.

Q. Suppose, for example, that only half the gold that has been mined in the last ten years had been mined in that time; what would be the difference in the situation in respect of the exchequer as compared with to-day?—A. Not a particle of difference, because the Government, as soon as it gets the gold into mint bars, sends it to New York, and replenishes its account; it gets paid for it there, and it discharges obligations, or gets credit for it.

Mr. SPENCER: Therefore, they pay with that surplus gold.

The CHAIRMAN: Mr. Ladner was asking questions. I should like the members of the Committee, if they do not mind, to reserve their questions and not to disturb Mr. Ladner's line of thought, and the witness' line of thought.

By Mr. Ladner:

Q. Mr. Ross, assuming that there was a surplus supply of gold over and above what was normally required in the financial operations of the Government, as I have suggested of fifty million dollars; would it be feasible to use that in the reduction of the national debt, and the saving of interest? In the practice of banking, is it feasible, in case there is a shortage of gold, to buy treasury notes in New York?—A. Treasury notes? You mean Canadian Treasury notes, or the United States Government's?

Q. Treasury notes?—A. You mean obligations of the Dominion Government?

Q. Yes?—A. If the Government had, as you suggest, fifty million dollars in surplus gold, it would be the easiest thing in the world to reduce the national debt. They could go in and buy securities at the market price, and cancel them; do it over night.

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Q. Supposing later on it was found on account of changing conditions in the country that they had to take care of the shortage, could they do it through the medium of treasury notes?—A. Do you mean if the Government were short of gold?

Q. Yes?—A. There is power under the Audit Act. If the Government were short of gold, that is to say, had not gold up to the legal requirements, the Government has power to borrow, and can do it in any fashion it likes, either by Treasury bills, or long term bills; sell them, and acquire credits with them, and convert these credits into gold.

Q. Making a balance between the gold supply and the notes?—A. Yes, and their obligations.

The CHAIRMAN: Mr. Ward, I interrupted you.

Mr. WARD: I would like to ask Mr. Ross a question. I think it was about two years ago that the Dominion Government purchased about sixty million dollars of gold?

WITNESS: I do not know, Mr. Ward, what the figures were. The Government has been purchasing.

By Mr. Ward:

Q. I think if I recall correctly, they did make a purchase of about sixty million dollars, and I understand they floated bonds, I presume, thirty-year bonds, to purchase this gold. My understanding is that they floated bonds to purchase the gold?—A. I do not think so.

Q. Whether they purchased gold or not, and regardless of how they issued the bonds, the fact is that we have a very large national debt, and it makes no difference; the cost to the Canadian people was just the same, and the usual bond, a thirty-year bond, I understand was issued. Now, that sixty millions of gold that was purchased had this effect, that whether it was paid for in cash or by bonds, we are still paying for it?—A. What has happened, Mr. Ward, is if the Government purchased that amount of gold, the only place they purchased it was from the mines; it was refined and stamped with the mint mark, and then it was shipped over to New York, you will find, and the Government got credit there for it, and thus extinguished its obligations in turn with the people from whom they bought it.

Q. Now, the popular theory that we are still paying for that gold and will continue to pay for it—A. Is wrong.

Q. Is wrong, you say?—A. Absolutely.

Q. That is the point I wish to bring up?—A. I am quite sure it is wrong.

By Mr. Donnelly:

Q. Mr. Ross, under the Finance Act of 1903, I understand the Minister of Finance is allowed to make certain advances?—A. Yes.

Q. On what?—A. On Dominion Government securities, provincial securities, and on paper that represents standard commodities like wheat, and one or two other things.

Q. They are not allowed to make any advances for capital expenditure, nor for speculation?—A. No, not if they know it.

Q. Is there any way the bank can guarantee to the Treasury Board that they are not using ths money for that purpose?—A. Yes, the Treasury Board has the power to inquire just as under the Federal Reserve Bank Act.

Q. How can you be guaranteed that if you hand me money, I am not going to use it for speculative purposes?—A. You are asking a question that is on everyone's tongue in the United States. It is in the Federal Reserve Act that money loaned under that system cannot be used for speculative purposes, and yet every one knows it is.

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Q. And in the same way, I can use it for capital expenditure, after I get the money?—A. I think it is soon found out, because the obligation has got to be met. You might use it immediately for capital, but you have to meet the obligation in ninety days. If you do, that is an end of it. Of course, a concern might borrow immediately on the strength of Government bills, and lend it to clients; a bank might do that in the Dominion, lend to clients who were speculating. The bank has other money besides the money it gets from the Finance Act. A bank does not keep its money boxed up in water-tight compartments; it is all in one mass. I may say, though, that the banks, certainly the Canadian banks, and probably the American banks too, do not lend purposely for speculative purposes.

Q. But you cannot guarantee it?—A. No. So far as they know, it is not so used.

By Mr. Woodsworth:

Q. Mr. Chairman, I suppose on account of my having introduced this resolution, I have had a number of communications from various parts of the country with regard to it, and I should like to ask Mr. Ross to give a statement in regard to one or two matters to which my attention has been called. Here is a typical note from Winnipeg:

> "There is no question that the West particularly is suffering on account of the predominating financial factors being in the East."

Or, here is a resolution passed since this Committee has been in session by the Canso Board of Trade, and the Canso Fishermen's Federation, under date of March, 19th, 1928:—

> "Whereas credit is essential to modern industry and commerce;
>
> "And whereas the control of credit at present is in the hands of a few banks with headquarters in Montreal and Toronto;
>
> "And whereas this has been one of the main causes of the unsatisfactory conditions in all classes of business and industry in both the Maritime Provinces and Western Canada;
>
> "Therefore resolved that we urge upon the Government such changes in the banking system of Canada as will ensure adequate credit facilities to all sections and to all classes of industry in Canada."

Does Mr. Ross consider that as the headquarters of the banks are, as a matter of fact, located in the two cities representing the central part of this country, there is not a very good basis for some complaint from outside sections which are much further removed, and are not perhaps able to bring so much pressure to bear on headquarters?—A. Dealing with the Canso resolution, I do not think the inference drawn from the resolution is justified. I am absolutely sure that if any fishing company is in a good solvent position it has not the slightest difficulty in getting money. In fact, the banks are competing, as never before, for a good class of business. You will notice in the resolution that not a word is said about furnishing security, or about the solvency of the concern asking for money. All they are asking for is money without reference to any underlying conditions; but if they are solvent concerns, in a liquid shape, they can get all the money they desire, or reasonably desire, for legitimate purposes. They can finance all the business that is solvent. I may say that the same thing is true in England. Within two months, the Chairman of one of the five great English banks, which control eighty per cent of the business of the country, said that although there were only five great banks, the competition between the banks was never so keen as it is at the present time, for good, legitimate business.

[Mr. Henry T. Ross.]

Q. The fact that the local branch bank manager has absolute authority over small loans and must not refer them to headquarters you think does not mean a discrimination against localities at a distance?—A. I do not think so. There might be an individual manager who has very bad judgment. It is impossible that all of the four thousand managers over the country are perfect in their judgment. One manager might turn down quite legitimate loans, but if his head office or his management knew he was turning down legitimate loans he would be reprimanded. Banks are anxious to make legitimate loans, legitimate loans that will be repaid in the ordinary course.

Q. You do not think the fact that the head office is so far away puts it out of touch with the local needs?—A. I do not think so. They have superintendents travelling about the areas, who are in constant touch with local conditions.

Q. Retail men very often complain to-day that they must be financed almost wholly by the wholesalers, that it is absolutely useless for them to go to the bank; have you any knowledge of that?—A. I have no knowledge, except a general statement I might make. If any retailer is in a liquid position he will not have the slightest difficulty in getting all the money he needs for his business; if he is hard up (to use a commonplace) and has a great many book debts that are bad, and cannot meet his obligations, and that is a regular thing, he will have difficulty with his banker.

Q. I would like to read a sentence or two, if I may, from a communication received recently from a retired judge, who has been in close touch with the business situation in Western Canada. He says:—

> "You won't get any business man to appear before the Committee, for the reason that they are not independent of the banks."

I have asked a number of business men to appear before this Committee, who decline to appear, for that very reason. Do you think business men are so dependent upon the favour of the banks that they are afraid to give evidence? —A. No. I am quite sure there are lots of business men in this country who are independent of banks, and a banker would not undertake to say or suggest such a thing. An independent man, who is in a good position financially, if his banker complained, could go across the street and get all the accommodation he wanted. The people who are being carried along and nursed, by the banker, are the ones who are afraid to appear, because they have no case.

Q. You do not think the banks, being organized into one organization, might not make it easy for the Bankers' Association you represent to put pressure upon these men?—A. No. As I said before, the competition was never keener, and if a bank put pressure upon a client which was not justified it is very easy for the client to go across the street and get money elsewhere. There is no question about that. The banks are anxious to get clients from one another.

Q. My friend the correspondent also goes on to point out that the banks give twice a year a full-page advertisement in the newspapers, from the biggest to the smallest village paper, and that is one reason why publicity is in favour of the bank—A. I am not aware of the fact that there is any such extensive advertising as that. The banks advertise freely, but I never remember a full-page advertisement. Perhaps when the Annual Reports are published, they might take a full page.

Q. I think so. I have seen those?—A. And those are probably paid for.

Q. I am giving you these things, not as my own ideas, but as the ideas of a number of men who cannot appear before the Committee, and I ask for your statement as to the complaints that are constantly being made. The contention has been that it is our branch bank system which has enabled a great many

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industries to be established in different parts of the country. I wonder if I might read this to you:—

> "Notice this fact, that whenever there is a German community, you will find industries going ahead. The reason is that the German withdraws his deposits from the banks and lends to his countrymen, to start industries. Why can't the banks do this?"

—A. I think that is very readily answered. That is quite legitimate. The men of German nationality who are willing to take the risk themselves are willing from time to time to accommodate their countrymen in the establishment of businesses, but it would be a bad thing for the banks. The banks must keep clear of that. They must be absolutely independent of any manufacturing businesses.

Q. Just along that same line, this suggestion is made:—

> "Let me ask where would Oshawa be to-day? Where would Kitchener be to-day?
>
> "The argument, which I have often heard advanced by bankers and their on-Easy-Street-customers, is that no one is refused credit who offers good and safe security. Such I may admit is the fact, though I know of cases to the contrary, where successful industries would have been seriously crippled had not private individuals offered assistance, after banks had refused it."

A. I think that is correct, for the reason that it is not a banker's function to take the hazards of the commencement of a manufacturing business. It must be established, and have its margin of surplus. A banker should know that it is against all principles of banking in any country. I think the German banks risk more than any other banks; certainly the English banks do not.

Q. Let me continue.

> "Let me ask where would Oshawa be to-day? Where would Kitchener be to-day? Where would Tavistock be to-day had they depended upon the banks to get their start?"

He shows in detail how these three towns had their industries established by the people themselves?—A. That is perfectly legitimate and splendid, but certainly it is not the function of a banker to finance the commencement of new industries.

By Mr. Jacobs:

Q. The bank is merely a trustee?—A. Yes. A banker would have his funds all tied up, and could not move. He wants to keep his obligations liquid. If he put his money into a business concern, it might be there many years and possibly be lost.

By Mr. Woodsworth:

Q. Let me read this paragraph, since I do not know Eastern Ontario very well:—

> "First take Oshawa. Not a dollar to the Cowans and the McMillans; men of industry, foresight and determination. These men realized, at the initial stage of their industries how hopeless it was to expect banks to help them. So it came about that, to use the deposits of the farmers, they started the Western Bank, which then lent the local Captains of Industry the deposits of the people in the surrounding country. Thus Oshawa got its start. Then, when all became clear sailing the chartered banks entered Oshawa and secured the cream. Second, take

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> Kitchener, not a dollar from the banks to start it on its successful career. Then from whence came financial help? It came from the Germans. Men of that nationality are intensely loyal and trustful, one to another, and this loyalty and trust is seldom misplaced. They drew out from the banks their own deposits, and lent them to German industrial enterprise. Then when all was safe going, the banks got the benefit of industrial life, which they refused to start.
>
> "Third, take Tavistock. A short time ago two banks opened in that village. They did this, not, by confession, to do a regular banking business except so far as gathering the deposits from a rich and prosperous part of the farming community may be regarded as such. Now, Germans largely preponderate in and around Tavistock. The same loyalty and trust was shown by them to their compatriots as was evidenced at Kitchener among the same people. So they lent to him who wished to start an industry, and thus Tavistock got a start, which promises a successful industrial future.
>
> "Now, if the banks instead of sending Canadian money to foreign parts, would follow the example of the German, our villages and towns would take on new life. Our sons and daughters would find employment at home and the "Quota" system would be as unnecessary as the fifth wheel to a coach."

A. I think the gentleman, while he writes a very excellent letter, has a wrong conception of the functions of a bank.

Q. He differs with you; you do not believe that the banks should do that? I would like you to develop that?—A. The banks are merely to finance legitimate, solvent industries, not to take the hazards of new businesss.

Q. What about that investment of the Bank of Montreal in Mexico, of some $3,000,000, in Sir Edward Houston's time?—A. That was before my time. I have no knowledge of it.

Q. Or the various investments in sugar in the West Indies?—A. I have no knowledge of any substantial loss there.

Q. But there were investments there?—A. Possibly; I have no knowledge of that.

Q. There were losses in connection with the Home Bank, of course, as we all know?—A. Yes.

Q. I would like to ask a question or two to get your opinion with regard to a matter I spoke of when I introduced this motion, that is, the interlocking of directors. A friend of mine tried to visualize it, what it meant, on a chart, which may give some idea of it. I do not want to go into details. I do not claim, Mr. Ross, that this blue print I am putting up on the wall is absolutely accurate; in fact I have a great many companies that are not listed here. It is merely approximate. As you will note, the directors of the four banks are indicated here; the Bank of Montreal, with its directors, Sir Vincent Meredith and Sir Charles Gordon, and so on; the Bank of Nova Scotia, with its list of directors, the Bank of Commerce, and then the Royal Bank. There is placed here in a sort of general way the combined capitalization of the companies with which one particular director is connected, and on the sides are some of the companies and their subsidiaries with which the director is connected. I mentioned in the House the case of Sir Herbert Holt. There were only 130 mentioned, but I think there are nearly 150 which I have traced. One has to read the reports, to find these things out. Sir Herbert Holt is a director in some 150 other companies and corporations besides that of the Royal Bank. The criticism which I make here, and which I have heard hundreds of people in my part of the world make is this: the fact that Sir Herbert Holt is con-

nected with the Keewatin Power Company, the Dominion Bridge Company, the Players' Canadian Corporation, the Fort William Paper Company, and so on, as well as the Ogilvie Flour Mills—we will say, if the Ogilvie Power Mills Company were in competition with the Lake of the Woods Milling Company, or some other flour mill, Sir Herbert Holt would be almost superhuman if he would prefer to give credit to the Lake of the Woods Milling Company instead of to the Ogilvie Flour Mills Company. We are not crediting Sir Herbert Holt with being below the average in business morality; on the other hand, we do not think he is above the average in business morality, and the inevitable tendency would be that a man so connected would be interested in these various corporations. Several members of the Royal Bank, for example, have in fact taken hold of Besco, and inevitably the Royal Bank has a very deep interest in Besco. Now, there are several points I would like to ask about, and I have to have a background for my questions. The first is whether under these conditions there would not be a tendency for the bank director to be prejudiced in favour of those corporations with which he is directly or indirectly connected? —A. Is that question to me?

Q. Yes, Mr. Ross?—A. I can only make the reply made by one much more experienced than myself, the present President of the Association, Mr. A. E. Phipps, General Manager of the Imperial Bank, who has had an experience of over forty years in banking, and in a large way in the last fifteen years, we will say. He said he never knew of an instance in his experience of any Board of Directors withholding credit from a legitimate industry simply because a Company that some of its directors were interested in was a rival; he never knew of any such instance, and he said there would be no trouble in the world for a company in the position you mentioned there. There are two companies in the Royal; you mentioned Besco. The Royal has several directors on the Canada Steel Company. I do not know, but very likely if the Canada Steel Corporation desired to borrow money it borrows from the Royal, some of its money at least. I think its president is a Bank of Montreal man and certainly it has two or three directors of the Royal Bank. These corporations can get money anywhere. This interlocking directorate, so far as lending or the power to borrow money is concerned, is a theory only and has no practical effect, in the judgment of Mr. Phipps.

Mr. Irvine: Would your contention be, Mr. Woodsworth, that a banker having these other connections might cause credit to be let out when there was no really good basis for letting out the credit? Otherwise I cannot see that you have any point, because credit is not limited. If there was a limited amount of credit, and if these companies got it, there would not be any left. But there is still credit, because the banker is anxious to lend on approved securities; and unless they give credit to their favorites when there is no real basis for it, I do not think you made a point.

Mr. Woodsworth: I do not think he will say that there is no limit to credit.

By Mr. Irvine:

Q. You would not say that the granting of credit to a subsidiary company in which a banker was interested would affect me?—A. I do not think so, because there is enough credit to meet all legitimate demands.

By Mr. Spencer:

Q. Let me interpose a question. Do you call credit in that case an equal amount with the deposits, or, to put it in another way, is credit limited to the amount of deposits on hand?—A. Substantially. It is limited, on the assets of the institution.

[Mr. Henry T. Ross.]

Q. Or the securities that are lodged with the institution?—A. Yes, anything that belongs to the institution itself.

Q. It is almost entirely clients securities?—A. Any banking institution can only extend credit in proportion to the amount of liquid assets it has to meet the obligations which arise out of the granting of that credit.

Q. But the local assets are made up out of the securities lodged with the bank to make up the amount?—A. A whole lot of things.

By Mr. Woodsworth:

Q. My second question is based upon a complaint I have received from a Toronto business firm, that a banker gets to know the inside of business affairs, in his position as a banker?—A. Yes.

Q. And on occasion he uses that inside knowledge in favour of his own particular institution?—A. I think that question was put to Mr. Phipps, and he said that so far as his own bank was concerned, if a member of the board was in the same business as a rival, without any law on the matter, it was usual for that man to refrain, or to stay out of the meeting when that matter was disposed of, when his rival's matter was disposed of, not as a matter of law, but that it would not be decent for him to be there, to learn of his rival's affairs or try to strangle his rival in business.

Q. It would be entirely a matter of honour, on his part?—A. Not on his part, but on the part of the bank. I think that is in the code, without any writing about it.

Q. Since banks are almost semi-public utilities in that regard, might it not be a good practice to have, as we have with regard to Government institutions, that if a man takes a position in a bank he might be called upon to resign his directorate in any other concern? You will remember that some years ago the question came up with regard to Cabinet Ministers?—A. I think it would be unfortunate if bankers who are directors of a number of other corporations and also of banks had to resign, because the very best business a bank has is the business that its directors through their influence bring to the bank.

Q. I presume they are appointed because of that?—A. They are appointed largely because of their influence, and if they severed their connections, it would be a great loss to the country. We would be deprived of men of vision and good judgment in business matters.

Q. Do you not think that it would be in the public interest if in certain businesses the amounts loaned should have a certain limit?—A. No, I think that would be completely reactionary. It would be against British tradition, which is the soundest banking tradition in the world, and we would be following the tradition of the United States, which has been struggling for fifty years to get away from it. They are shot to pieces with regulations of various kinds.

Q. There are some of us who have been suggesting that there should be a central bank, not necessarily a Federal Reserve Bank, which should be a bank of issue and rediscount. Is there any reason why the Dominion Government should not issue all our currency?—A. Yes, I think the reason has been already given. It would seriously affect pioneer banking in this country, banking in pioneer communities.

Q. That is because of the practice of these banks in pioneer communities using considerable in the way of bank notes?—A. Their own notes. If they had to keep real cash there on which they were paying interest, the pioneer community would be without a bank, no doubt.

[Mr. Henry T. Ross.]

Q. What is the franchise of note issues worth to the banks?—A. Well, that is a technical question. I can only repeat what Sir Edmund Walker, who was perhaps one of the most experienced bankers who ever appeared before this committee, said. He thought from a calculation made at some time in his own institution, somewhere between one and two per cent. It might vary greatly under different conditions, but one to two per cent on the issue.

Q. There is also one very small matter, but one which in certain sections creates a great deal of criticism; when a bank note is lost, the bank is in that sense the gainer?—A. No.

Q. It remains a charge against the bank, but as obviously it can never be presented, the bank in the meantime has the use of it?—A. The banks would very much prefer, and are extremely anxious to get rid of the liability. They do not regard it as an advantage to the bank.

Q. It is a book-keeping liability?—A. It is an actual liability. Their credit stands diminished to that extent; the bank's credit stands diminished to that extent.

Q. But they will never be required to pay, if a bank note is lost?—A. There are provisions at the present time under which, if anybody can prove that a note is destroyed, not lost—because we have heard of losses which turned up again—but is destroyed, there is machinery under which the person who was the owner at the time of the destruction can be indemnified.

Q. They have to have the numbers of the notes? In practice it would be very difficult to prove?—A. No. Within three months we have had the case of notes burned in wrecks to the extent of over $100,000. That is unusual. It usually extends over a period of years. They have been written off by the banks, because it had been learned that they were actually burned; they were notes on the way back to the bank's head office for destruction. It so happened in that case but not in all cases.

Q. That was an exceptional case?—A. Not very. I should limit that and say that in one case notes for a substantial amount, some sixty or eighty thousand dollars, were in transit from the Central Office to a Branch Office, when the train was burned and the notes were destroyed. The bank was extremely anxious to get rid of the liability, and suitable arrangements were made under by-laws for ridding the bank of the liability.

Q. I intended to ask with regard to the relationship to the price level, but that has been covered, and I know your position. I do not think we would gain very much by it?

By Hon. Mr. Stevens:

Q. On this point, a lost bank note is a liability of the bank?—A. Yes.

Q. That is, the bank's own note I am talking of?—A. Yes.

Q. When that note comes back to the bank, it ceases to be a liability?—A. Yes.

Q. If, therefore, 10 per cent of your notes were lost or destroyed, it would be a fixed liability against the bank?—A. Yes.

Q. Just the same as if the notes were in current use?—A. Just the same.

Q. And until they are obliterated by some process, they remain a liability?—A. That is correct.

By the Chairman:

Q. Might not the government some day confiscate them?—A. It has never been determined how much is lost or destroyed.

Q. They might take them away from the banks?—A. There is no way of determining how much has been lost or destroyed; the bank does not know.

[Mr. Henry T. Ross.]

By Hon. Mr. Stevens:

Q. Has any estimate been made?—A. I have never heard of any.

By Mr. Donnelly:

Q. On private loans in different parts of the Dominion are there variations in the rate of interest?—A. I am aware of that. I think Mr. Harding gave an admirable statement with regard to variations in rates, depending upon the character of the paper that is offered. While rates for what he called prime paper might be 4 per cent, rates somewhere in the United States to an individual whose paper was not known might be 8 per cent. There is certainly no convention between the banks as to what rates shall be charged the borrowers in the different provinces, so far as I am aware.

By Mr. Robinson:

Q. Mr. Chairman, I would like to ask Mr. Ross a question. He spoke about notes returned for cancellation, to the Canadian banks. Is there any statute, rule, or regulation as to when a note should be recalled on account of its worn condition?—A. No, although I may say notes are recalled at very much shorter intervals. That is the life of a note has been shortened very much in the last fifteen years. The practice has gradually improved, and the life of a note is shortened; both Dominion and bank notes.

Q. Some of the bills that I have seen looked as if they had been carried in some one's shoe. They were dirty on one side. In my travels through the United States, which have been rather extended, I always got clean bills.—A. Probably in your travels you were in the large centres, in the hotels, and the hotels make a point of getting new notes to hand out.

Q. Say, in Detroit, if you go to any bank, you will get clean notes. I know in one of the banks in Walkerville, a while ago, the teller thought the bills were not fit for circulation, and he turned them back to the Government, that is one and two dollar bills, and they sent them back, and said "They have not been used enough."

Hon. Mr. Stevens: There is something in that. I was never so annoyed in my life as I was coming east this last trip, across the continent; with the filthy condition of the one and two dollar bills I was forced to take. They were not fit for a human being to handle. I am not saying that that is the fault of the banks, but I do say it is the fact, and an effort should be made to prevent it.

By Hon. Mr. Chaplin:

Q. I would like to ask Mr. Ross in reference to bank notes; is it not the fact that every bank in the country brings back its issue once a year, that the whole issue is new every year?—A. Well, I am not just sure, Mr. Chaplin, of the length of the life of notes. The life has been shortened materially, but it is not possible to recall all the notes; they get around the country, and there is no possibility of getting them all in.

Q. In other words, every bank in the country burns up their whole capital every year?—A. I have not any tabulation, but I think that is substantially correct, as to the note issues.

Hon. Mr. Stevens: I was talking of Dominion notes.

By Mr. Donnelly:

Q. At the Banking Conference in 1922, was it not the unanimous opinion that there should be one central bank of issue in any country?—A. I did not get that. What conference was it?

Q. The Genoa Conference?—A. I think I remember something of that kind.

[Mr. Henry T. Ross.]

Q. We have no central bank of issue here in Canada?—A. We have in effect. The Dominion Government notes are, after all, the legal tender currency of this country. The bank notes are very subsidiary. They are not legal tender, and the banks settle their obligations between themselves, not in their own notes, but in Dominion Government notes. The Dominion Government's currency is the over-lying currency of this country, and in that sense, coupled with the Finance Act, under which Dominion notes are handed out when the banks borrow from the Government, we have a central issue.

By Mr. Spencer:

Q. Could you inform the Committee, Mr. Ross, what percentage of the trade of Canada, that is the internal trade, is carried on through the medium of notes, either Government or private bank notes?—A. I have not any figures to show that.

Q. You will remember, I think, that in 1923, when the late Sir Edmund Walker was giving his evidence, that he thought it was four per cent?—A. I would be helpless to hazard an opinion, and if Sir Edmund Walker made such a statement, I would bow to it.

Q. He was a pretty good judge of that?—A. Yes.

Q. The balance would be carried on under our very up-to-date system of cheques?—A. Yes.

Q. Therefore, we should necessarily, on a matter of banking, pay particular attention to the control of cheques?—A. Well, of course, the value of a cheque depends on the man whose name is at the bottom of it.

Q. It seems to me that all this talk we have had on banking, and money matters, has laid too much stress on the subject of bank notes, when it is cheques that really do most of the business. Now, you will admit, or I think you will not contradict this statement, that there is something (credit withdrawable by cheque) that can be produced by banks as long as they have collateral?—A. As long as they have assets.

Q. They do not have to have deposits that they can lend?—A. They must have sufficient liquid assets to meet their obligations as they mature.

Q. Liquid assets may be partly the securities of their clients to whom they have made loans?—A. That may be. The assets of a bank are a very complex affair.

Q. We have reports from men like Professor Adam Shortt, of Canada, and Mr. McKenna, of the Midland Bank of England; they make the statement.

Hon. Mr. STEVENS: I could not hear the statement. I shall be obliged if Mr. Spencer will repeat his question.

Mr. SPENCER: I am sorry if I have not spoken loud enough, but there is considerable conversation in the room. I was saying that talking of this matter of banking, and monetary matters, we have laid far too much stress on the matter of note issues, when the note issues only do about four per cent of the business of this country.

Hon. Mr. STEVENS: That is the statement. I was trying to get the question.

Mr. SPENCER: As we only do about four per cent of the business of Canada by bank notes, therefore, it is of importance that we should give due consideration to the other medium that we use to transact business, that is, cheques.

Hon. Mr. STEVENS: Very good, but still I do not know what the question is.

By Mr. Spencer:

Q. I wanted Mr. Ross' admission of that, but I think he agrees with it. Do you admit that?—A. Which? That we might give more attention to the question of cheques?

Q. Yes?—A. I do not know, I am sure.

Q. To the creation of credits withdrawable by cheques.

[Mr. Henry T. Ross.]

Mr. Irvine: They give so much attention to these cheques that they will not take one of mine.

Witness: I cannot say how a bank might regard Mr. Irvine's cheque, but mine might not be very highly regarded. I may say that a bank regards generally, among its items of assets, cheques on other banks. They regard that as a good asset because it is realizable the next day. In ninety-nine and a decimal percentage of cases, very few cheques come back that are not redeemed. That works so smoothly, that I do not think it need occasion any concern.

By Mr. Spencer:

Q. The point I want to get at is this; and it is a very important one: that the development of industry in the country is not limited by the amount of savings' deposits that can be loaned?—A. Everything depends upon what position the banks' assets are in.

Q. Can you answer my question definitely?—A. No, I cannot make a definite answer. One institution is in a very liquid position; it may have the same amount of deposits as another. It is in a very liquid position, and it is in a position therefore, to make grants of credit. Another institution may have its assets so tied up, to use an expression, that it cannot grant credit. The Home Bank, for instance, could not grant credit.

Q. Is the development of trade limited to the lending of deposits?—A. These deposits have gone through a dozen processes since they were deposited, and they are in some other form altogether from what they were at first, and it depends on the character of the change as to what the immediate position is.

Q. The point is, is trade limited to the lending of deposits?—A. I do not think I can give a categorical answer to that, because deposits do not remain in the bank in the same position as when they were made. They are changed over night.

Q. It is difficult to get an answer to my question, but an hon. member said that the money the bank lends is not its own?—A. If a bank has so much deposits, and if it is carefully administered, and is in a good position, it can certainly extend credit.

By Mr. Irvine:

Q. May I ask a question? I was going to ask, in the case of a bank that has apparently come to the limit of its credit, would it affect its credit adversely if I solicited a loan from it on very excellent security. It seems to me that if my security were good, it would not impair the position of the bank at all, and I do not see why it could not permit the issue of a cheque on that?—A. I am not a banker, and this is only my opinion, that if an institution is very much extended, and a good concern like the one you mention, came to the bank and wanted a line of credit for a large amount, the security being absolute, yet that institution cannot extend credit to you.

Q. Would it not have to be in a bankrupt condition, and afraid of being called upon for its deposits?—A. Yes, it would be in that position, that it would be afraid all the time and could not move along in a legitimate way.

Q. Your hypothesis there is that the banking institution is not solvent; but taking the institution as solvent, the credit is not limited to the actual amount of deposits in the safe of the bank?—A. A bank can become over-loaned, just as any individual can become.

Q. So far as its liquid assets are concerned?—A. Yes, it may not be able to take on new obligations. I think at the present time, the banks are anxious for loans; they have a surplus of assets ready for loaning, but times may change, there may come hard times.

Q. They will come unfortunately.

[Mr. Henry T. Ross.]

By Mr. Donnelly:

Q. Do the eleven Canadian banks control or regulate the credit policy of the Dominion?—A. That is a very general question. As to the credit policy there is no concerted action between the banks with regard to the credit to be extended.

Q. Do you think someone ought to control the whole credit system of the banks?—A. I do not think it is possible for any individual to do that.

Q. Would you say that it is better that it should not be controlled at all?—A. I think everything would depend on the industry itself, whether it is entitled to credit or not. An industry and its banker can determine that, assuming the bank to be in a good condition, as to whether the industry is entitled to credit, and there should not be an outside power saying this industry should not have credit.

Q. Is there any regulation on the subject of credit existing in Canada?—A. I do not think so. I never heard of any.

Q. Do you not think our Treasury Board might in some way, by changing the regulations from time to time, control the credit?—A. They might, yes. They might have a depressing effect, but, as Mr. Harding pointed out the other day, the mere raising of a rate sometimes does not influence speculation. He said there was a four million share day right after the rate went up in New York.

Q. When we are borrowing or getting money from the Treasury Board, or notes from the Treasury Board, and the Treasury Board believes it is used for speculation, do you not think they could control credit by raising the rate?—A. I think they could for some months, yes. I think if the Treasury Board raised the rate to a point where it was unprofitable, and the banks could not lend at a profit, it would have an effect.

Q. Do you not think then it is possible for the Treasury Board to control credit in the same way as a Federal Reserve bank?—A. You know what Mr. Harding and Mr. Mellon said about regulating credit.

Q. I mean to a certain extent, influence if not control it?—A. Yes, it is one factor, but not the controlling factor.

Q. Our Treasury Board is not in any way exercising its influence in that respect?—A. I am not so sure of that.

Q. Apparently not, judging by the way they have changed the rate of interest?—A. I am not so sure that they might not say to a particular bank, or I am not so sure that if a bank was not regarded as in an excellent position, the Treasury might not say, "we do not feel like making advances to you." I think that is quite possible.

Q. The only changes they have made in their rate of interest, were to cut it down?—A. Yes, but they might refuse to lend at all. It is perfectly optional whether they shall lend or not; not only change the rate, but they might refuse. That would be an effective way, more effective than the rate.

By Mr. Spencer:

Q. Following up that line, Mr. Ross, in the cross-examination of Mr. Phipps the other day, he did not like to accept for the Bankers' Association the responsibility for inflation or deflation. He threw that responsibility largely on the wholesalers and retailers. He then went on to say that the Treasury Board, under the Finance Act, in issuing notes against securities of the banks, could regulate to a certain extent, by increasing or decreasing the interest rate. I think you remember that?—A. Yes.

Q. Now, in that particular case, his bank, the Imperial Bank, I understand had not borrowed through the Treasury Board. If that is so, there is

[Mr. Henry T. Ross.]

no control through the Treasury Board on the Imperial Bank, or any other bank in such a position?—A. I do not know.

Q. In that case, it would be entirely up to the bank as far as they were concerned. to inflate or deflate under their control of credit. Is not that so?—A. The banks' volume of credit depends upon its own immediate resources.

Q. That is just the point where you and I do not meet. I cannot get an answer to my question on that point. I claim, and in fact, I have very good authorities for it, that it is largely in the hands of the banks as far as they have securities to issue credit on and that the savings' deposits, or current deposits have little connection. Under the Finance Act, they are given Dominion notes, or legals?—A. Yes.

Q. And these legals are used for correcting balances between the banks? —A. They are the real money of the country.

Q. Now, the Imperial Bank has never used the Finance Act, it has never come to borrow through the Treasury Board?—A. The Imperial Bank has relatively a large amount of these legals, always has.

Q. Transferred through its exchanges?—A. Yes, they take them all the time, and some of these notes have come from borrowings under the Finance Act. The Dominion notes received through the Finance Act are only a portion of the Dominion notes that are held by the banks. You must remember that of that 97 millions of gold, the banks have received 97 millions of Dominion notes for that.

Q. Will you just explain that again?—A. That 97 millions of gold we spoke of the Finance Minister having, or 90 odd millions, the banks have received from the Dominion Government these large legals in return for that gold, and so, the large legals the Imperial Bank has, principally originating on gold in exchange for legals, are exchanged with the other banks every day. When the Imperial Bank has a balance in the clearing house, in its favour, the other banks have to pay it in Dominion notes, within an hour.

Q. I understand that, that the Treasury Board is made up of so many Ministers of the Crown, and that, under the Bank Act, as securities are lodged with the Treasury Board, if they want to put a value on those, they can call in bankers in consultation?—A. Yes.

Q. In that case, has a banker ever been called in who has an interest in the Securities?—A. No.

Q. Would the bankers, by any chance, have anything to say, or would their opinion be asked with regard to increasing or decreasing the interest rate?—A. I do not think they have been consulted. They may have made representations, or said something about it, but, the Treasury Board has acted on its own initiative.

Q. With regard to the big legals, or notes that are given to the banks against securities, the banks can place these in the Central Gold Reserve, can they not?—A. Yes.

Q. In lieu of gold?—A. Yes.

Q. So that there is a good deal more paper in the Central Gold Reserve than gold at the present time? Now, the banker that had a good deal to do with forming the Central Gold Reserve a number of years ago was the general manager of the Bank of Nova Scotia?—A. Your information is not correct.

Q. I had the information from him?—A. I happen to know about that too.

Q. Was it the intention of whoever was behind that movement, to have so much paper in the gold reserve?—A. You refer to a former general manager?

Q. A former general manager, yes?—A. With all respect to Mr. McLeod's memeory, he was not concerned or consulted at the time it was done.

Q. Did he not take the stand that that should be a real gold reserve?—A. He may have advocated it, but he had nothing to do with the initiation of the policy.

[Mr. Henry T. Ross.]

Q. One or two other questions. You made the statement that if the banks did not have the right of note issue, service to outlying districts could not be given?—A. It would be limited.

Q. Now, I understand that it is permissible, under the Bank Act, for branch banks to have quantities of their own notes, which are not counted as anything but paper until passed over the counter?—A. Yes.

Q. I think that is a very good idea. Now, why could not the same thing happen if we had simply a Government issue, that the bankers could be given a quantity of Government paper, which would not be charged against them until it went over the counter?—A. That is impossible of operation, because the bank is settling its own obligations every day, and if they had these obligations, they would have two classes, one that they were obligated for, and one that they were not. It would be an impossible thing, absolutely impossible.

Q. But it is done in other countries?—A. I do not know where.

Q. Is it not done in England?—A. Does the Bank of England hand notes to the banks, and they do not pay for them? That would be news to me.

Q. No, the Bank of England deals with every branch?—A. Yes, but they have to pay for them before they get them.

Q. Is there any reason why such an arrangement could not be made?—A. There is no such thing in England as what you suggest here for Canada.

Q. Can you give me a reason why it could not be done?—A. It is impossible of performance.

Q. At one of our meetings, some weeks ago, there was a conversation on with regard to the quantity of gold held in this country, and the amount used; and the statement was made that the main use of gold to-day was in adjusting trade balances. No one carries gold about in his pocket; it is not wanted, it is not convenient. The statement was made that the main use of gold was to adjust trade balances?—A. No, to adjust trade balances in this sense, that gold represents these large notes that the banks have, and these notes are the counters used in adjusting trade balances.

Q. Bank balances?—A. Yes.

Q. I did not mean that? I mean balances of the State?—A. International trade balances?

Q. Yes. It was asked in this Committee how much gold had been transferred at different times, and how much each time between this country and the States.—A. I do not think we have had that information.

The Chairman: Did that go in Mr. Tompkins?

Mr. Tompkins: I do not think it has been handed in yet. Mr. Hyndman is working on it. (*See exhibits Nos. 2 and 3—pages 114, 117.*)

Mr. Spencer: That will be very useful.

Witness: That is the chief practical function of gold, to adjust international balances.

By Mr. Spencer:

Q. That use of gold is largely psychological, is it not?—A. You may call it psychological.

Hon. Mr. Stevens: Are we interested in psychology, at present?

By Mr. Spencer:

Q. We all know perfectly well that if they could not get gold, the Government would stand behind the financial institutions, and time would be given?—A. The Government has to stand behind its own issues.

Q. And behind the financial institutions too?—A. Not necessarily.

Q. Did they not do so in 1914?—A. No, there were certain changes made. They did not stand behind the banks.

[Mr. Henry T. Ross.]

Q. They enabled the banks to pay their debts in their own notes?—A. To a limited extent.

Q. They did not have to meet them in gold?—A. To a limited extent. The banks could not over-issue.

Q. I accept that. That is perfectly all right. Therefore it is largely psychological, and when the public generally recognize that fact, then we can talk very plainly about these things.

Sir GEORGE PERLEY: I suggest that Mr. Spencer ask questions. He is making a statement.

Mr. SPENCER: That is all I wish to ask.

Mr. IRVINE: Is this the last witness, Mr. Chairman?

The CHAIRMAN: Unless the Committee desires some one else.

Mr. IRVINE: I want to ask one question, and before I ask it, I want to say something. I think our investigation is pretty largely a fiasco in the sense that we have not made progress in getting information beyond the actual data which we already knew about the technique of banking in Canada. I do not think anyone is questioning the technique of the banking in Canada. Certainly, I am not. And while it may be improved, yet I think every one agrees that it is a very excellent system. I certainly am not opposing the branch bank system in any questions I ask, nor would I like to see it departed from. I think our questions in this investigation have been off the point, and I want to go a little deeper. First of all, I want to say that my interest arises in seeing that we shall be sure that at all times there will be sufficient credit available by the different institutions handling it, to cary on any legitimate industry in the country; and secondly, that there should be such control of that issue that we shall be ultimately prevented from the swing from boom to slump, known as inflation and deflation. Now, I want to ask the present witness whether he is absolutely convinced that it is useless to make inquiries into the possibility of controlling credit in that respect? I am not suggesting that the control of credit is the only factor involved in that, but I think he will grant that it is one of the most important factors, and to the extent that it is a factor, does he not think that a careful study of that situation by the Bankers' Association, and by any other goup, or institution that he thinks should be interested—does he think that it is impossible to find at least a partial solution of that question?

WITNESS: Answering Mr. Irvine's question, I would say it is certainly a very desirable thing if crises, or if slumps could be prevented, and if prices could be kept on an even keel. I perfectly agree with that. But I fall back on what the great American bankers, Mr. Mellon and Mr. Harding (who was here), think. They do not think that through banking operations there can be a control of prices.

By Mr. Irvine:

Q. Do you not think they are influenced to a certain extent, that that is one most important factor?—A. It might to a certain extent; but Mr. Mellon states that it is not the most important factor. Mr. McKenna has been cited here several times. Mr. McKenna based his statements on the operation of the Federal Reserve Boards, and drew certain deductions. It is a very singular thing that the men responsible for the operation of the Federal Reserve Board take the opposite position to Mr. McKenna; the men who know the operation of it do not agree with Mr. McKenna.

By Mr. Spencer:

Q. My reference to Mr. McKenna was not in that relation at all, but to what he said about banking in general.—A. I am speaking of his recent speech.

[Mr. Henry T. Ross.]

By Mr. Donnelly:

Q. We have not had any evidence from the Treasury Board as to whether they have used their influence or not to control credit. Do you not think we should have some person here from the Treasury Board who could say whether they had used their influence or not?—A. It is possible that the Treasury Board may have. You cannot get any farther than that.

Q. We do not know whether they have ever used it at all?—A. I think that with the institutions in existence it has happened.

Mr. IRVINE: Does Mr. Ross think that there is a very decided relationship between the amount of money in circulation of any kind, I do not mean in currency, but anything that is used for money, and the amount of goods on the market at the present time, and the price of goods. It is a more or less technical question, it is a question of the relation of credit to goods?

WITNESS: I would hesitate offhand to express an opinion as to that.

Hon. Mr. STEVENS: Better refer it to the Research Council.

Mr. IRVINE: We might refer it to the Research Council. I do not expect Mr. Ross or any other banker to stand up and say it is this or that, but we do expect that the problem will be faced by those who have charge of the finances of the country, and that they will promise us to make a thorough investigation of it and report say five years from now either one way or the other.

Witness retired.

The Committee adjourned until Wednesday, April 25th.

EXHIBIT No. 2

(Submitted by Mr. G. W. Hyndman, Assistant Deputy Minister of Finance, Ottawa, Ont.)

Exports of Gold From Canada, 1917 to 1928

Years ended March 31	Gold-bearing quartz, dust, nuggets and bullion obtained driect from mining operations		Gold Coin		Gold bullion, n.o.p.	
	Canadian	Foreign	Canadian	Foreign	Canadian	Foreign
1916–17	$	$	$	$	$	$
April	803,638			5,028		
May	1,174,079		1,057	75,619		10,658,153
June	1,511,522			27,083,441		51,857,203
July	1,863,527			14,120 458		54,046,918
August	1,986,710			13,865		32,190,481
September	1,694,973			6,805		
October	2,062,403		14,600	4,884,456		
November	1,319,416		14,600	6,125		
December	2,523,456			30,120		
January	1,708,251			16,120		
February	1,253,424			10,030		
March	1,769,627			99,430		
Total	19,671,026		30,257	46,351,497		148,752,755
1917–18						
April	1,029,467			8,550		
May	1,168,777		275	298,984		
June	800,193			40,886		
July	1,156,760			49,025		
August	1,769,074		290	793,713		
September	1,713,572		100	93,027		
October	1,607,984		9,733	126,191		
November	1,319,154			20,638		
December	632,768			45,575		
January	466,449		29,210	55,655		
February	1,223,276			264,366		
March	801,226		3,000	38,269		
Total	13,688,700		42,608	1,834,879		
1918–19						
April	924,981					
May	836,474					
June	1,395,445					
July	1,226,983					
August	865,931					
September	804,779					
October	410,403					
November	771,415					
December	313,451					
January	712,549					
February	483,561					
March	456,061					
Total	9,202,033		(a)	(a)	(a)	(a)
1919–20						
April	187,460					
May	324,809					
June	511,227					
July	747,361	5		131,146		
August	345,522			220,382		
September	477,546	1,309				
October	270,721			144,660		
November	230,967			300,831		
December	289,339			34,825		
January	1,418,322					
February	756,109					
March	414,951					
Total	5,974,334	1,314		831,844		

EXPORTS OF GOLD FROM CANADA, 1917 TO 1928—*Continued*

Years ended March 31	Gold-bearing quartz, dust, nuggets and bullion obtained direct from mining operations		Gold Coin		Gold bullion, n.o.p.	
	Canadian	Foreign	Canadian	Foreign	Canadian	Foreign
1920-21	$	$	$	$	$	$
April	334,398					
May	327,209					
June	308,993					
July	123,092					
August	279,774					
September	62,166		(b)	(b)	(b)	(b)
October	148,129					
November	241,995					
December	227,771					
January	275,924					
February	341,043					
March	368,285					
Total	3,038,779	...	84	9,438,341	24,290,846	.....
1921-22						
April	178,396					
May	153,293					
June	269,946					
July	170,028					
August	90,470	2,505				
September	104,111		(b)	(b)	(b)	(b)
October	152,863					
November	136,126					
December	310,039	200				
January	203,389					
February	416,493					
March	346,896					
Total	2,532,050	2,705	500	5,027,313	18,082,533	.....
1922-23						
April	262,637					
May	267,201					
June	440,710					
July	344,989					
August	336,299					
September	325,266		(b)	((b)	(b)	(b)
October	389,320					
November	200,742					
December	419,996					
January	396,788					
February	801,280					
March	1,264,241					
Total	5,449,469	....	25	25,001,145	1,761,415	....
1923-24						
April	721,781					
May	1,786,555					
June	1,943,262			15,000		
July	1,880,195					
August	299,901	850		5,005,000		
September	339,557			3,000,025		
October	142,080			4,000,000		
November	1,085,717			15,000	705,002	
December	1,881,450				7,508,071	
January	2,471,920					
February	2,102,787				1,046,703	
March	2,728,885				3,260,793	
Total	17,384,090	850	....	12,035,025	12,520,569	....

EXPORTS OF GOLD FROM CANADA, 1917 TO 1928—*Concluded*

Years ended March 31	Gold-bearing quartz, dust, nuggers and bullion obtained direct from mining operations		Gold Coin		Gold bullion, n.o.p.	
	Canadian	Foreign	Canadian	Foreign	Canadian	Foreign
1924–25	$	$	$	$	$	$
April	1,712,666				2,051,404	
May	2,288,095			75		
June	1,985,738				200,625	
July	2,632,948				206,328	
August	2,121,399					
September	2,157,000			95		
October	2,624,921			973,337	8,371	
November	2,562,902			616	16,978	
December	2,969,188				197,431	
January	2,406,657				136,917	
February	2,189,458				102,243	
March	3,142,361				25,923	
Total	28,793,333			974,123	2,946,220	
1925–26						
April	2,167,109				8,873	
May	2,471,843				16,942	
June	2,877,707				19,112	
July	2,644,260				23,080	
August	3,471,417					
September	2,993,371			3,026		
October	2,544,021					
November	3,025,027					
December	1,499,416					
January	554,411			11,000,000	1,252,539	
February	536,704			12,000,000	1,505,978	
March	1,182,808		4,000,000	1,009,733	39,053,839	
Total	25,968,094		4,000,000	24,012,759	41,880,363	
1926–27						
April	511,221					
May	511,345					
June	483,268			90		
July	768,748			480		
August	614,094					
September	609,492			300		
October	672,020					
November	549,049					
December	347,291					
January	702,213			36,500,000		
February	392,923			1,000,000	1,006,864	
March	692,678			3,500,000	1,004,527	
Total	6,854,342			41,000,870	2,011,391	
1927–28						
April	527,264					
May	525,474					
June	619,190		1,005	2,000		
July	508,831			1,217	3,007,955	
August	782,893			1,000,000		
September	891,258			100		
October	660,830			67		
November	840,573					
December	737,385					
January	785,289			27,650,625	20,392,030	
February	1,071,371			1,973	7,454,666	
March						
Total						

(a) No statistics available for the fiscal year, 1918–19.
(b) No statistics available by months for these years.

EXHIBIT No. 3

(Submitted by Mr. G. W. Hyndman, Assistant Deputy Minister of Finance, Ottawa, Ont.)

Trade of Canada

Monthly merchandise Trade balances, April, 1916, to February, 1928

Fiscal year	Month	Excess of Imports over Exports	Excess of Exports over Imports
		$	$
1916–17	April		5,695,228
	May		26,059,833
	June		31,664,627
	July		42,893,664
	August		25,828,435
	September		23,449,086
	October		16,025,422
	November		39,114,785
	December		64,526,859
	January		30,032,544
	February		3,388,360
	March		24,106,882
	Total		332,785,725
1917–18	April	19,939,482	
	May		44,570,156
	June		22,459,219
	July		89,985,876
	August		60,595,922
	September		39,537,031
	October		81,739,069
	November		121,788,174
	December		89,201,529
	January		38,904,340
	February		37,510,269
	March		16,307,010
	Total		622,659,102
1918–19	April	6,532,677	
	May	8,448,446	
	June		28,484,567
	July		21,950,876
	August		12,863,315
	September		68,860,862
	October		54,399,153
	November		49,048,324
	December		20,233,039
	January		51,521,004
	February		21,693,286
	March		34,980,277
	Total		349,053,580
1919–20	April		13,017,504
	May		25,121,704
	June		16,376,217
	July		34,477,896
	August		39,431,208
	September		22,613,103
	October		21,178,958
	November		30,277,717
	December		43,127,885
	January		17,938,222
	February		2,860,482
	March	44,290,310	
	Total		222,130,586

TRADE OF CANADA—*Continued*

Fiscal year	Month	Excess of Imports over Exports	Excess of Exports over Imports
		$	$
1920–21	April	42,420,236	
	May	32,902,360	
	June	26,197,400	
	July	20,357,421	
	August	10,550,619	
	September	18,717,844	
	October		25,376,963
	November		50,076,788
	December		65,067,828
	January		9,681,635
	February	5,655,317	
	March	23,132,780	
	Total	29,730,763	
1921–22	April	21,235,137	
	May	7,768,102	
	June		2,048,801
	July	5,965,747	
	August	2,784,303	
	September	215,288	
	October		21,737,905
	November		23,368,583
	December		27,135,548
	January	4,378,569	
	February	7,289,782	
	March	18,531,232	
	Total		6,122,677
1922–23	April	15,043,413	
	May		4,337,346
	June		11,438,326
	July		11,063,609
	August		7,131,669
	September		12,615,871
	October		37,029,852
	November		55,561,732
	December		41,833,133
	January	2,451,195	
	February	6,661,384	
	March	14,138,953	
	Total		142,716,593
1923–24	April	13,853,244	
	May	8,216,006	
	June		11,605,268
	July		7,403,668
	August		2,504,359
	September	2,533,629	
	October		25,659,249
	November		66,920,819
	December		59,259,656
	January		3,786,672
	February		6,197,895
	March		6,661,723
	Total		165,396,430
1924–25	April	10,654,697	
	May		33,252,737
	June		21,932,339
	July		15,589,163
	August		12,852,049
	September		18,554,338
	October		36,132,566
	November		53,646,691
	December		64,515,567
	January		17,623,773
	February		9,734,514
	March		11,250,066
	Total		284,429,106

TRADE OF CANADA—*Concluded*

Fiscal year	Month	Excess of Imports over Exports	Excess of Exports over Imports
		$	$
1925–26	April		1,603,899
	May		21,580,079
	June		18,801,622
	July		21,787,516
	August		30,339,340
	September		30,910,994
	October		63,720,162
	November		66,072,843
	December		99,480,639
	January		15,979,689
	February		18,021,560
	March		13,073,062
	Total		401,371,405
1926–27	April	6,886,176	
	May		7,029,017
	June		27,885,668
	July		22,989,885
	August		1,993,655
	September		7,763,773
	October		43,361,987
	November		66,352,241
	December		58,032,996
	January		6,460,549
	February		5,096,386
	March	3,399,344	
	Total		236,680,637
1927–28	April		4,106,779
	May		16,885,548
	June		6,182,225
	July	9,827,522	
	August	3,393,445	
	September		7,531,853
	October		11,885,422
	November		61,208,770
	December		48,926,853
	January		4,921,326
	February		4,379,957
	Total		152,807,766

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